NOTE

This Microfiche meets the quality requirements of the American National Standard for Microfiche of Documents (ANSI PH5.9-1975). However, because of imperfections in the document from which it was made, it contains images that are illegible or difficult to read. The source document for this microfiche is the best copy that could be obtained prior to filming.

Congressional Information Service, Inc.
Washington, D.C.

TREASURY, POSTAL SERVICE, AND GENERAL GOVERNMENT APPROPRIATIONS FOR FISCAL YEAR 1983

HEARINGS

BEFORE A

SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS UNITED STATES SENATE

NINETY-SEVENTH CONGRESS

SECOND SESSION

Administrative Conference of the United States
Advisory Commission on Intergovernmental Relations
Advisory Committee on Federal Pay
Committee for Purchase From the Blind and Other Severely Handicapped
Department of the Treasury
Executive Office of the President
Federal Election Commission
Federal Labor Relations Authority
General Services Administration
Merit Systems Protection Board
Nondepartmental witnesses
Office of Personnel Management
Office of the Special Counsel
U.S. Postal Service
U.S. Tax Court

Printed for the use of the Committee on Appropriations

U.S. GOVERNMENT PRINTING OFFICE
94-917 O WASHINGTON : 1983

For sale by the Superintendent of Documents, U.S. Government Printing Office
Washington, D.C. 20402

S181-5

COMMITTEE ON APPROPRIATIONS

SUBCOMMITTEE ON TREASURY, POSTAL SERVICE, AND GENERAL GOVERNMENT

JAMES ABDNOR, South Dakota, *Chairman*

PAUL LAXALT, Nevada
MACK MATTINGLY, Georgia
MARK O. HATFIELD, Oregon
ex officio

DENNIS DECONCINI, Arizona
WILLIAM PROXMIRE, Wisconsin

Professional staff

BURKETT VAN KIRK
ROBERT E. MILLS (*Minority*)

CONTENTS

MONDAY, APRIL 26, 1982

Department of the Treasury:

  Office of the Secretary 1
  U.S. Customs Service 69
  U.S. Secret Service 93
  Bureau of Alcohol, Tobacco and Firearms 125
  Federal Law Enforcement Training Center 139

MONDAY, MAY 3, 1982

Department of the Treasury:

  Internal Revenue Service 155

Executive Office of the President:

  Compensation of the President 247
Department of the Treasury 259

TUESDAY, MAY 4, 1982

General Services Administration 279

THURSDAY, MAY 6, 1982

Office of Personnel Management 337
Merit Systems Protection Board 347
Office of the Special Counsel 357
Federal Labor Relations Authority 369
U.S. Tax Court 403
U.S. Postal Service 415
Committee for Purchase From the Blind and Other Severely Handicapped 429
Federal Election Commission 437
Administrative Conference of the United States 447
Advisory Commission on Intergovernmental Relations 459
Advisory Committee on Federal Pay 479

WEDNESDAY, MAY 12, 1982

Executive Office of the President:

  Office of Management and Budget 491
Nondepartmental witnesses 529

TREASURY, POSTAL SERVICE, AND GENERAL GOVERNMENT APPROPRIATIONS FOR FISCAL YEAR 1983

MONDAY, APRIL 26, 1982

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, D.C.

The subcommittee met at 10 a.m., in room 1114, Everett McKinley Dirksen Senate Office Building, Hon. Mack Mattingly presiding.

Present: Senators Abdnor and Mattingly.

DEPARTMENT OF THE TREASURY

OFFICE OF THE SECRETARY

STATEMENT OF CORA P. BEEBE, ASSISTANT SECRETARY, ADMINISTRATION

ACCOMPANIED BY:
- PAUL H. TAYLOR, FISCAL ASSISTANT SECRETARY
- DONNA POPE, DIRECTOR, BUREAU OF THE MINT
- ARTHUR D. KALLEN, DIRECTOR, OFFICE OF BUDGET AND PROGRAM ANALYSIS

PREPARED STATEMENT

Senator MATTINGLY [presiding]. Good morning.

Today we open fiscal 1983 budget hearings for the Treasury, Postal Service, and General Government Subcommittee.

This is not the first hearing this subcommittee has held this year, and in that regard the Chair suggests that witnesses refrain from any discussion of what was labeled as the Treasury enforcement reorganization plan.

Our first witness this morning is the Hon. Cora Beebe, Assistant Secretary of Treasury for Administration.

Ms. Beebe, please proceed.

Ms. BEEBE. I have prepared a statement and, with your permission, I would like to submit this for the record and just summarize briefly.

Senator MATTINGLY. That will be entered.

[The statements follow:]

STATEMENTS OF CORA P. BEEBE

I am pleased to be here today to discuss Treasury's Fiscal Year 1983 budget requests for the Office of the Secretary, Treasury's Fiscal Service and the Bureau of the Mint.

As this Subcommittee is well aware, these organizations carry out a variety of fundamental Government functions -- paying the Government's bills, financing the public debt, manufacturing coins and advising the President on monetary, fiscal and economic policy. The budget requests now before you will allow, I believe, efficient and effective accomplishment of these reponsibilities and, at the same time, reflect our goal of limiting Federal spending.

Office of the Secretary/International Affairs

For the Office of the Secretary, we are requesting $59.8 million. Of this total, $21.8 million will support the broad economic policy direction activities within the Office of the Secretary. Approximately $13.8 million will support international affairs, including liaison with international oragnizations and foreign governments in matters of common economic concern; sales and purchases of foreign currency to stabilize exchange markets; projection and interpretation of international economic trends; development of U.S. policy regarding international financial institutions and assisting in economic aspects of programs funded jointly by the U.S. and Saudi Arabian governments. These international affairs activities are vital because they provide the Administration data on developing world-wide issues that impact international economic policy. For administration, which includes both administrative expenses within the Office of the Secretary and funds for the provision of policy direction to all Treasury operations, our budget includes a total of $16.6 million. It also includes $7.4 million simply to maintain and operate Main Treasury and the Annex buildings.

You will note that we are proposing to merge the Salaries and Expenses and International Affairs appropriations. Operating under these two separate appropriations in a relatively small organization has proven unnecessarily burdensome and has complicated our efforts to manage declining resources.

Bureau of Government Financial Operations

For the Bureau of Government Financial Operations, we are requesting $183,267,000. Three types of expenditures, account for

84 percent of the Bureau's costs: postage (28 percent); employee services (24 percent); and reimbursements to commercial depositaries and the Federal Reserve Banks (32 percent). The remaining 16 percent will be used for check stock, rental of space, capital equipment, and miscellaneous expenditures.

Cash management is a high priority of the Department. We are requesting $13.1 million in Fiscal Year 1983 for a new initiative to convert to the Federal Tax Deposit/Treasury Tax and Loan System those individuals who now make quarterly estimated tax deposits -- as a means to speed the flow of these funds into the Treasury. At the same time, we are carrying out a number of other cash management initiatives designed to improve operations and to reduce our borrowing costs.

The Fiscal Year 1983 request also includes appropriation language that will permit direct reimbursement to the bureau from the Social Security Trust Funds for the costs associated with processing Social Security payments. The Trust Funds now reimburse the Treasury for these expenses, but to the General Fund, not the bureau's appropriation.

Bureau of the Public Debt

For the other half of the Fiscal Service, the Bureau of the Public Debt, we are requesting $210,045,000, including $14,822,000 for the Savings Bonds Division. Within this amount, program increases account for $20.8 million; other increases necesssary to maintain current levels total $14.1 million. These increases are partially offset by reductions of $3.1 million from savings and nonrecurring costs.

The budget request for the Bureau of the Public Debt reflects the continued effect of high interest rates and increased investor participation on workload for both savings and marketable securities. Redemptions of savings bonds have slowed from a year ago, but they continue to outpace sales resulting in a net cash drain for the program. To reestablish the savings bond as a viable and competitive savings vehicle, Secretary Regan proposed a new "market-based" variable rate for savings bonds in December 1981. The rate would be 85 percent of the average return on 5-year Treasury securities for bonds held 5 years. In anticipation of a strengthened program, sales are projected to increase in Fiscal Year 1983 by an estimated 22 million bonds above levels estimated for Fiscal Year 1982.

Redemptions are projected to increase, although not proportional to the increase in sales.

High interest rates continue to attract investors to Treasury marketable securities and particularly to Treasury bills, although the rate of increase declined somewhat in the past year. Marketable workload volumes in Fiscal Year 1983 are not projected to exceed 1982 levels, although interest rates and the availability of other investment opportunities will continue to influence sales and redemptions of marketable securities.

Program increases proposed in the Bureau's request are required to handle increased workload volumes associated with savings-type securities. The majority of the increase is for fees paid to financial institutions and other organizations that issue and redeem savings bonds as agents of the Treasury. Increased reimbursements to Federal Reserve Banks and an increase in payments to the United States Postal Service are also tied to higher volumes.

Savings Bonds Division

The proposed change to the variable rate savings bond is, of course, crucial to the Savings Bond Division's continued effectiveness. The Fiscal Year 1983 request for the Division of $14,822,000 will fund 70 fewer average positions than funded in 1982. In order to operate most effectively with reduced staff, the Division will concentrate its efforts on larger accounts and in dense population areas. A reorganization of headquarters and field staff has already taken place. We anticipate that approval of a "floating" interest rate bond will revitalize this program.

Bureau of the Mint

For the Bureau of the Mint in Fiscal Year 1983, we are requesting an appropriation of $50,165,000, an increase of $2,676,000 million over comparable 1982 levels.

This request includes $1.838 million to restore one-time savings in Fiscal Year 1982 resulting from the temporary closing of the Philadelphia Coinage Strip Facility; a program increase of $1.384 million for increased overtime funding for the production of coins and for the replacement of worn-out and obsolete production related equipment; and $3.675 million to offset mandatory and inflationary increases for utilities, supplies, and other costs. These are partly offset by decreases of $4.5 million and 191 permanent postions related to closure of the New York Assay Office, conversion to the zinc one-cent coin and other program reductions.

Revenues resulting from Fiscal Year 1983 operations of the Bureau of the Mint are estimated to be about $724 million including seigniorage of $516 million and $208 million from the sale of gold medallions and miscellaneous numismatic programs.

Transfer Authority

I would like to point out that the Department's budget also includes requested authority to permit up to 5 percent of any appropriation to be transferred to other Treasury appropriations. This transfer would enable us to respond to changes in workload or other emergencies in an orderly fashion during the year. While on this subject, Mr. Chairman, I would like to take this opportunity to thank you for your personal efforts in securing authority in the FY 1982 Continuing Resolution for the Secretary to transfer up to 2 percent of any Treasury appropriation account to any other Departmental account. Your efforts in securing the transfer authority will provide assistance to the Department in meeting our operational requirements during the current fiscal year.

That concludes my statement, Mr. Chairman. I would ask that at this point statements from each of these bureaus be inserted in the record. My colleagues and I will be happy to answer any questions the Subcommittee may have.

I am pleased to be here to discuss the fiscal year 1983 budget request for the Office of the Secretary in the Department of the Treasury.

The Office of the Secretary functions as the principal policy formulation and administrative oversight unit of the Treasury Department. We are responsibile for enabling the Secretary of the Treasury to carry out his broad responsibilities as the chief financial officer of the United States government, principal advisor to the President on economic, tax, and fiscal policies, and manager of the Treasury Department.

The missions and functions of the Office of the Secretary are broad and diverse, including:

(1) the management of the fiscal operations of the U.S. government and the public debt;

(2) oversight of Treasury's extensive law enforcement responsibilities;

(3) the development and analysis of economic, monetary, fiscal, and tax policies;

(4) the conduct of numerous international economic and financial responsibilities, including representing the

United States and its policies to other nations as well as various international financial organizations;

(5) liaison with the Congress and the American public; and

(6) administration of the Department's numerous organizations and related statutes.

These broad and diverse responsibilities require a wide range of staffing expertise and related support.

Our fiscal year 1983 budget request totals $59.8 million, an increase of $4.0 million above the level authorized in 1982, which includes a proposed $2.8 million supplemental appropriation for civilian pay raises. When compared to fiscal year 1981, our request represents an increase of only $1.1 million, or less than 2 percent.

Our fiscal year 1983 budget has three major goals:

(1) to carry out the broad responsibilities of the Office of the Secretary in fiscal year 1983;

(2) to continue efforts to reduce costs and to make needed economies as part of the President's overall program to reduce the budget and the size of the government's workforce; and

(3) to accomplish greater efficiencies in our operations, including the merger of two separate appropriations -- salaries and expenses and international affairs -- to achieve greater flexibility in managing what is essentially a single, integrated departmental management organization of approximately 1,150 funded employees.

Our first goal, the provision of sufficient resources for the conduct of our broad responsibilities, must be viewed in larger perspective. Our budget request of $59.8 million represents approximately 1 percent of the entire operating budget for the Treasury Department. Our personnel request of 1,151 average positions also constitutes only 1 percent of the entire Treasury workforce. Such ratios are, I believe, appropriate and indicative of our intent to keep policy and administrative oversight functions at the minimum level necessary.

Of the total of $59.8 million being requested in fiscal year 1983, $21.8 million will support the broad economic policy direction activities within the Office of the Secretary. These include tax and economic policy and monetary affairs. Approximately $13.8 million will support international activities, including our analytical work in areas such as international monetary affairs, development financing, and trade and investment policy. For administration, which includes both administrative expenses within the Office of the Secretary and funds for the provision of policy direction to all Treasury operations, our budget includes a total of $16.6 million. It also costs $7.4 million simply to maintain and operate Main Treasury and the Annex.

The Office of the Secretary is unique in that we own and operate our own buildings -- Main Treasury and the Annex. Therefore, services and costs, that General Services Administration typically furnishes other Federal agencies, are provided by the Office of the Secretary under the Salaries and Expenses appropriation. Our general support operations include telecommunications systems, maintenance and repairs and utility services.

A second major goal of this budget is to reduce costs and the size of our workforce. When compared to actual 1981 levels, our budget request represents an increase of $1.1 million, or less than 2 percent. What this increase masks, however, is that operational costs have increased approximately 11 percent between 1981 and 1983. Our fiscal year 1983 budget, therefore, represents an effective reduction of over 8 percent in operations during a two-year period.

As to personnel, our 1983 request of 1,151 average positions represents a reduction of 82 average positions, or 6 percent, below comparable 1981 levels. We have taken these reductions in several areas, most notably in international affairs and administration. When viewed in terms of total personnel rather than average positions, our efforts indicate even greater progress. At the beginning of fiscal year 1981, there were 1,289 employees from all categories funded under the Salaries and Expenses and International Affairs accounts. The budget before you projects that by the end of FY 1983 we will have over 130 fewer employees - a reduction of slightly more than 10 percent.

Our 1983 budget anticipates restoring one-time reductions taken in 1982 to meet the levels set in the Continuing Resolution. These include funds for training, research, data processing equipment, supplies, and minor repairs. Prudent management dictates that while such activities might be postponed for a short period, a lengthy prohibition would have a debilitating effect on operations.

A third major goal of this budget is to make our operations more efficient. As part of that effort, we are proposing to merge the Salaries and Expenses and International Affairs appropriations. Operating under these two separate appropriations in a relatively small organization has proven unnecessarily burdensome, and has complicated our efforts to manage with declining resources. To illustrate, when implementing personnel reductions, we have attempted to accomplish savings through attrition. However, the attrition has not balanced between the two accounts, even though we are meeting our overall target for the Office of the Secretary. To remedy such difficulties, we are proposing a Salaries and Expenses appropriation, with international affairs being shown as a separate activity within that account.

The merger of these accounts will improve our efficiency in several ways. We will have greater flexibility in responding to unplanned changes in workload. Many individual sub-offices within the Office of the Secretary will no longer have to alter their operations to meet two unrelated personnel and dollar ceilings. Rather, they will operate under a single ceiling. For example, the Office of Tax Policy, a single organization, currently receives both international affairs and salaries and expenses monies. Under our proposal that office, which is an integrated operation, will receive a single allocation.

In addition to outlining these three major goals of our budget, I would like to highlight several major changes between the fiscal year 1982 and 1983 amounts. Major changes include:

- an increase of $347 thousand to annualize the cost of pay raises granted in fiscal year 1982;
- an increase of $1.9 million to offset inflation for utilities, commercial and government telecommunications, data processing costs incurred by the Federal Reserve and other government agencies on our behalf, rental costs, and costs associated with the operations of our financial attaches overseas;
- an increase of $2.2 million to restore one-time savings being accomplished in fiscal year 1982 in such areas as data processing, supply stock, research, equipment and training.
- offsetting program savings of $426,000 due to a reduction of 15 average positions.

I would also like to point out that we have proposed an FY 1982 supplemental appropriation of $2.8 million for civilian pay raises already in effect.

In summary, we feel that this request will allow us to continue to perform basic responsibilities, while at the same time reducing costs and personnel as part of the overall program of the President.

That concludes my statement, Mr. Chairman. I will be happy to answer any questions that the Subcommittee may have.

Summary Table
Office of the Secretary, Salaries and Expenses
(dollars in thousands)

	Actual FY 1981	Authorized Level FY 1982	Budget Estimate FY 1983	Change 1981-1983
1. Secretarial Policy and Program Development . . .	$20,205	$20,566	$21,846	$1,641
2. International Affairs	14,781	12,920	13,835	-946
3. Departmental Policy and Administrative Services	15,230	17,758	16,635	1,405
4. Building Maintenance and Operations . .	6,879	4,485	7,436	557
5. Repairs & Improvements	524	---	---	-524
Unobligated Balance	1,051	---	---	-1,051
Total appropriation, authorized level and budget estimate . . .	$58,670	$55,729 1/	$59,752	$1,082
Average Positions . . .	1,233	1,166	1,151	-82

1/ Includes $2.8 million for a civilian pay raise supplemental proposed for FY 1982.

Statements of William E. Douglas

Mr. Chairman and members of the committee, it is a pleasure for me to have this opportunity to discuss the activities of the Bureau of Government Financial Operations and to explain why I think that in the case of this Bureau the taxpayers of America get an excellent return on their investment.

The mission of the Bureau is to promote the financial integrity of the United States Government through sound money management on behalf of the public. Our services include, but are not limited to, disbursement of over 700 million in non-military Government payments, accounting for and reporting on all Government payments (military and non-military), supervision of the Government's collections mechanisms through which over $600 billion flow each year, and overseeing the cash management practices of the entire Federal Government. In short, we are the Government's principal disbursing agent, accountant and financial manager, and as such, we impact a large, diverse and important clientele.

While rising costs and across-the-board cuts make successful accomplishment of these indispensible functions increasingly difficult, I believe the budget which I am presenting to you here today is, at present, adequate to allow us to perform those missions.

However, I must emphatically state one caveat: the Bureau's ability to operate at the fiscal year 1983 appropriation request level and perform its many non-discretionary and legally mandated services, is contingent upon legislative action to permit reimbursed funding to the Bureau for the costs of issuing, paying, reconciling, and handling claims upon Social Security benefit payments. Authorization for direct reimbursement of BGFO will assure the availability of adequate funding to perform the vital services required for the Social Security program, irrespective of postage rate increases or fluctuations in the volume of benefit payments made. The Social Security Trust Funds already reimburse the Treasury General Fund for these costs, but in order for the BGFO Salaries and Expenses appropriation to be directly reimbursed, it is necessary to either amend the Social Security Act or insert specific authorizing language in the BGFO appropriation each year. Our FY 1983 appropriation request of $183,267,000 anticipates realization of one of these actions and the adequacy of our appropriation request is entirely contingent on that eventuality.

As I proceed to explain the BGFO appropriation request in detail please keep in mind the overwhelming importance of obtaining legislation or appropriation language to permit reimbursement of the Bureau of Government Financial Operations for Social Security related costs.

RESOURCE REQUIREMENTS

As I mentioned, our fiscal year 1983 appropriation request is for $183,267,000. Of this amount, approximately 84% is attributable to three types of expenditures: postage, employee services and reimbursement of commercial depositaries and Federal Reserve Banks.

As has historically been the case, postage is one of our largest and least controllable items. The number of checks processed and mailed by our Bureau depends, in part, on the number of people eligible to receive Social Security, welfare, Veterans and other Government checks, and, of course, the amount we pay for each stamp is entirely up to the Postal Service and the Postal Rate Commission.

The cost to perform this vital payment function impacting so many of the nation's eligible benefit recipients has risen tremendously over the past year. Postage costs account for an ever larger portion of our funding needs. Postal rates paid by the Bureau have risen by 33% since March of 1981. At current rates, postage constitutes roughly 28% or $50.8 million of our entire fiscal year 1983 appropriation request. We have tried to compensate for this increase by concentrating our resources on the Direct Deposit System, a payment mechanism which electronically deposits funds automatically into a recipient's financial institution, and through presorting mailed checks, both of which reduce postage costs. But while strides have been made in these areas, they have not been enough to offset the tremendous increase in mailing costs.

Another large expenditure is the $58.5 million, or 32% of our total request, for reimbursement to commercial depositaries and Federal Reserve Banks for the many services they provide to us and the entire Federal Government. I will return to this point later in my remarks, but I do wish to emphasize here that depositaries in general, and Federal Reserve Banks in particular, are indispensable to the fulfillment of the Bureau's mission.

Finally, the third largest share of our funding request is the $44.9 million for employee services. This represents 24% of the total funds requested. The number of average positions requested for FY 1983 is 1840, as opposed to the FY 1982 figure of 2560. This decline is due to the anticipated shift of 728 positions associated with the processing of Social Security payments from appropriated to reimbursed funding offset by an increase of 8 positions in the Disbursement area. The workforce of BGFO is dedicated to the performance of the indispensible disbursing, accounting, claims and cash management functions which serve the American public and financial community. These functions are currently very labor intensive and, while studies are being made to make greater future use of automation, there is little that can be done to make a crash personnel reduction without sacrificing the integrity of the Federal fiscal service.

So then, three types of expenditure, postage, reimbursement to the Federal Reserve Banks and commercial depositaries and employee services, are largely unavoidable and together comprise over 84% of our total funding request. The remaining 16%, $29.0 million, consists of costs for raw materials (primarily check stock), capital equipment, and other minor miscellaneous goods and services. Hence, this relatively shallow pool of operating funds can be considered our discretionary spending.

Having presented our budget on the basis of the major types of items for which we plan to spend funds, let me now address the functional allocation of our appropriation request. Our budget reflects the four fundamental areas of Bureau operations: Disbursement and Claims, Governmentwide Accounting, Banking and Cash Management, and General Financial Services. I will address each of these in turn.

DISBURSEMENT AND CLAIMS

The Disbursement and Claims area is by far the largest operating unit in the Bureau. Over half of the Bureau's financial resources and 42% of its requested authorized personnel are concentrated in this area. Also of considerable significance is the fact that, of the fiscal year 1983 funding request of $92.8 million for the Disbursement and Claims area, $50.4 million is for postage costs.

One of the techniques we have used with considerable success to reduce the overwhelming postage costs incurred in this area is our presort operation. In FY 1981, the Bureau saved 3¢ for each qualifying presort payment. Most of the more than 544 million checks and bonds which BGFO issued and mailed in 1981 were presorted and as a result $11.4 million were saved.

While strategies designed to decrease the costs of mailing checks are necessary and important in the short term, the Bureau must research and develop improvements to the Government's payment mechanisms if it is to continue its successful function of issuing payments in ever greater numbers and with increasing economies. It is for this reason that BGFO is intensively studying alternative payments mechanisms for the future and is promoting our Direct Deposit Program to the maximum extent permitted by available resources. Conversions to the Direct Deposit Program are quite cost beneficial for the Bureau and the government as a whole. For example, a projected 15% increase in EFT enrollment for 1983 will result in an increase in annual operational and postage savings in excess of $4 million. It is also estimated that if we adhere to our current strategy of promoting voluntary involvement in the Direct Deposit Program, annual postage and operational savings could be in excess of $50 million for all Government related payments by 1985. This current policy of promoting voluntary participation will continue to result in ever increasing savings, but we plan to utilize more effective methods of implementing the Direct Deposit Program in the future--otherwise it could be the 21st century before all check recipients are converted to EFT. Additionally, benefits accrue to the recipient in the way of assurance that they will not have to deal with a lost or stolen check, and confidence that each payment will be credited to their account on a timely basis.

A new program which modernizes the collection of estimated tax payments is the conversion of these payments to the Federal Tax Deposit/ Treasury Tax and Loan (FTD/TT&L) System. Of the $13.1 million requested for this initiative, $2.6 million and 8 average positions are required in the Disbursement area to handle the mailing of FTD forms to approximately 8.7 million estimated tax filers.

I have spent quite a bit of time explaining our need to reduce postage costs and to convey the importance of the Disbursing operation. We must not forget, however, the other portion of the Disbursement and Claims area--Check Claims.

Here again, as in most areas of the Bureau, we have no control over the amount of work presented to us. The Bureau does not have direct control over the number of checks lost or stolen and the resulting claims filed (estimated at 1.2 million claims for FY 1983). Because of a historic lack of adequate staffing in this paper-based, largely labor intensive operation, a large amount of work has been backlogged, putting a burden on the entire operation.

The prospect for a drastic improvement during FY 1983 is slim. We have decided that the only true solution is the long term one of developing major systemic improvements in the area. It is our hope that the success of the Direct Deposit Program and other techniques to reduce the amount of payments by mail (and resulting claims), combined with the development of up-to-date automated systems, will ultimately insure an efficient and effectively run operation.

GOVERNMENTWIDE ACCOUNTING

The Governmentwide Accounting area comprises 12% or $22.8 million of the BGFO FY 1983 appropriation request. It carries responsibilities which can appropriately be described as the central nervous system of the Government's financial network. It is here that the millions of independent bits of financial information, such as records of Government payments made and collections received, are organized to make sense of how the Government is functioning in the nation's, and indeed the world's, economic environment. This area not only brings into focus the nature and extent of the Government's economic activity, it also insures that the Government's financial system is operating properly. Economists and financial managers throughout the world depend upon the Combined Statement, Monthly Treasury Statement, Daily Treasury Statement and other authoritative reports which are published by the Governmentwide Accounting program.

Given that the Governmentwide Accounting program is a focal point in the nation's financial network, there is a tremendous need to assure that it keeps pace with the rapidly changing economic and technological environment within which it must operate. For example, we are, of necessity, actively working with the Federal Reserve to assure a coordinated communications interface between the Treasury and the Federal Reserve so that transactions and financial data flow smoothly between us. Additionally, we are undertaking modernization efforts to safeguard the efficient, effective and timely accounting controls which must be maintained over the hundreds of millions of Government checks issued and paid, as well as the many millions of deposits collected. To achieve this, we must establish fiscal regulations covering governmentwide policies and procedures on accounting systems, disbursing, banking, etc. This monumental task is essential not only to the entire Federal Government, but to the nation's financial community as well.

So then, while no funding is requested for new initiatives in the Governmentwide Accounting area, efforts are continuously being made to increase efficiency and develop needed system improvements.

BANKING AND CASH MANAGEMENT

Banking and Cash Management comprises $66.3 million or 36% of the fiscal year 1983 appropriation request, and of that amount, almost 90% ($58.5 million) is to reimburse financial institutions for the costs of their services. The services performed by financial institutions are too numerous to describe here in detail, but I would like to provide a brief overview of some of the more important functions and their value to Treasury.

Through the check truncation program Federal Reserve Banks eliminate the return of "hard copy" checks to Treasury and replace them with microfilm copies. This system uses equipment designed for magnetic ink character recognition and other processing techniques common in modern banking operations. By placing reliance upon microfilm, the system decreases the costs of handling and retrieving millions of checks.

Federal Reserve Banks also provide automated clearing house services for the Government's Direct Deposit Program. In so doing, the Federal Reserve serves as the conduit for Federal recurring payments and performs accounting, control, and security services relating to those payments. The involvement of the Federal Reserve is an integral part of the Direct Deposit Program, which is expected to generate an estimated $50 million in postage and operational savings annually by FY 1985.

Finally, I would like to note that the Federal Reserve performs numerous functions associated with maintaining the Treasurer's General Account. This involves the acceptance of deposits coming in through 700 authorized banks which must be promptly and accurately credited by the Federal Reserve.

It is extremely important that the Federal Reserve be compensated for the services they perform for the Government. Two of the most important reasons for reimbursing Federal Reserve Banks for these services are: first, greater leverage can be exerted by Treasury to gain the most prompt and efficient service possible; and second, as a matter of equity, the Government should not demand services for which it is not willing to pay.

Commercial banks and other depositaries also receive reimbursement by the Bureau of Government Financial Operations. Under the Treasury Tax and Loan Program over 14,000 depositaries process Federal Tax Deposits and provide accounting services for the Treasury. This system is the primary mechanism by which the Government collects its revenues (which were approximately $602 billion in FY 1981). Depositaries pay interest on funds held in Tax and Loan accounts and the Treasury, in turn, reimburses them for their costs. In 1981, $959 million in interest on these accounts was paid to Treasury, while the depositaries were paid about $31 million for the cost of their services.

A portion of the FRB's reimbursement, $10.5 million, is targeted for the conversion of estimated tax payments to the FTD/TT&L System. Under this new program, the 8.7 million individual estimated tax filers who currently are required to make their quarterly payments directly to the Internal Revenue Service, would now be able to make their deposits at authorized depositaries. The financial institution would then send a depositary form to the IRS and forward the money to the Treasury. The speeding up of funds to Treasury's account, plus a reduction in costs to the IRS, would result in savings to the Federal Government in the first full year of approximately $89 million.

The remaining 12% of the funding request for Banking and Cash Management, roughly $7.8 million, will be used to support relatively small programs which save the Government hundreds of millions of dollars.

In FY 1983, $3,292,000 will be targeted toward cash management initiatives that will help generate over $129 million in interest savings for the Government. These initiatives will provide for: a Treasury Tax and Loan/Federal Tax Deposit Modernization project aimed at eliminating paper transactions and accelerating collections; an increase in the marketing effort for the Direct Deposit program to increase participation by 2 million recipients for FY 1983; the implementation of internal mechanisms to monitor and control the Letter of Credit-Treasury Financial Communications System; an active program of cash management liaison work, to identify for correction deficiencies in agency cash management programs; modification of beneficial banking procedures in agencies where improved cash management practices are most cost beneficial; and the implementation of a fully automated Treasury General Account review system to relieve the time consuming and labor intensive paper-based review system.

In addition to the initiatives just described to increase cash management savings, resources are targeted for the continued supervision of over 19,000 Letter of Credit arrangements that improve the timing of withdrawals under grant funding and maintenance of a banking system to support the needs of the entire Government (domestically and internationally). Other ongoing programs include the maintenance of control over U.S. foreign currency for the Government, as well as leadership and stewardship of Federal cash management activities.

The United States has a cash flow that averages over 2.5 billion dollars (in and out) each business day, involving millions of transactions. The manner in which these flows and transactions are managed not only affects the interest costs on the public debt but also the individuals, financial institutions and other firms doing business with or receiving payments from the Federal Government. The actions undertaken by this portion of the Banking and Cash Management activity are expected to result in interest savings to the Government of over $700 million in FY 1983; almost four times the Bureau's FY 1983 budget request. As you know, it is widely held in the economic community that a decrease in the Government's demand for capital in the marketplace will help to relieve the pressure on interest rates.

Thus, the Banking and Cash Management activity provides a unique opportunity to do more than provide essential service, it allows the Bureau to generate large savings for the Government as a whole. I believe our record in this regard is an exceptionally fine one and that our opportunities for even more pronounced success in the future are excellent.

GENERAL FINANCIAL SERVICES

The fourth and final activity, General Financial Services, is small it terms of resource needs, but large in terms of essential services provided. The FY 1983 resource requirement of $1.4 million represents less than one percent of the Bureau's total appropriation request.

The services provided by the General Financial Services area are dictated by Government agreements and Congressional legislation. Among the services which it performs are the payment of international and other claims (e.g., Iranian, China, Czechoslovakia, German) accounting and management of certain Government trust funds (e.g., Social Security, Unemployment, Black Lung, etc.), revolving fund and loan accounts; accounting, billing and collecting for lend-lease transfers, surplus property sales, and co-production agreements with foreign governments (such as the NATO-AWACS programs); administration of the Government Losses in Shipment Act; as well as supervision of the liquidation of the Postal Savings System and other terminated agencies.

As in the case of most other responsibilities of the Bureau, most of the services provided are non-discretionary. For example, on November 6, 1981, the United States Government and the Government of the Czechoslovak Socialist Republic agreed on the settlement of certain outstanding claims and financial issues of American citizens who suffered losses resulting from the nationalization or other taking of property between January 1, 1945 and February 26, 1948. This one action by Congress will require the General Financial Services area of BGFO to process and monitor 2,000 related claims in addition to their normal workload.

Over the past few years, the workload for the General Financial Services area has increased without a corresponding increase in personnel. Hard work, along with productivity improvements, have enabled the area to keep up with the demand and avoid a costly backlog.

SUMMARY

To summarize, Mr. Chairman, the Salaries and Expenses Appropriation request for the Bureau of Government Financial Operations, coupled with legislation or appropriation language to permit reimbursable funding from the Social Security Trust Funds for services we perform for SSA, will enable the accomplishment of a mission which is so vital to the conduct of the Government's fiscal affairs.

Because the expenses of the Bureau are largely non-discretionary, I can assure you that this appropriation request and reimbursement package reflects, very accurately and realistically, our essential resource requirements. I believe that with these resources, the Bureau of Government Financial Operations will not only be able to continue its proud tradition of responsibly serving the people of our nation but, additionally, adhere to the Administration's austerity efforts in restoring strength to the nation's economy.

With your permission, Mr. Chairman, I would like to submit for the information of the Committee charts which support our appropriation request.

I thank you for this opportunity to report on the Bureau's activities and will be pleased to answer your questions at this time.

Thank you Mr. Chairman and members of this distinguished committee for providing me the opportunity to discuss with you the need for a supplemental appropriation in the amount of $81,604,000 and 728 average positions for the Bureau of Government Financial Operations. This three part request includes resources necessary to issue, pay, reconcile, and handle claims upon Social Security payments, compensate for the postage rate increase of November 1, 1981 and reimburse the New York Federal

Reserve Bank for the costs incurred on the Government's behalf in compliance with the Algiers Declarations concerning U.S. and Iranian claims.

In the past, it has been this Bureau's policy to include all costs associated with Social Security - related activities in our appropriated budget) request. The Social Security Trust Funds would ultimately reimburse the Treasury General Fund for these services. However, in September 1981, a funding plan was proposed that would authorize the Social Security Trust Funds to reimburse the Bureau directly, without any additional cost to the Social Security Trust Funds or the Government as a whole. Our rationale was that direct reimbursement to the Bureau would assure that adequate funds would be available even when faced with increased postage costs due to increases in rate or volume. Unfortunately, the Continuing Resolution makes no allowance for reimbursement by the Trust Funds to the Bureau, nor does it provide sufficient funds to make issuance of Social Security checks possible. Therefore, additional resources are required in the amount of $68,900,000 and 728 average positions, the estimated cost of Social Security payments - related services in FY 1982.

Part two of our request involves $10,604,000 needed to defray the escalating cost of postage. The Bureau of Government Financial Operations requires appropriated funding to process and mail approximately 538 million checks and bonds during Fiscal Year 1982. In addition to Social Security benefits, these include, but are not limited to, Government salaries, Supplemental Security Income (SSI), tax refunds, savings bonds, Federal Tax Deposit forms, Veterans Administration benefits and the Office of Personnel Management retirement benefits. Without the additional funding, we will be unable to fulfill our obligation to pay for postal costs incurred, consequently, the Postal Service would not be obligated to deliver those payments without due compensation.

The third part of this supplemental request deals with the costs incurred by the New York Federal Reserve Bank while acting as fiscal agent for the United States in compliance with the Algiers Declarations. The American hostages were released from Iran on January 19, 1981 after the Declarations were signed. The U.S./Iranian Claims Tribunal was established to settle the outstanding claims between the nationals of the two countries. Toward this end, a security account was established with the Dutch Central Bank to assure prompt payment of claims. The monthly service charge associated with this account is $150,000.

Treasury assured the Federal Reserve Bank of New York before the Declarations were codified that, while Treasury could not guarantee reimbursement to them for the expenses incurred, every attempt would be made to secure appropriated funding to cover those costs. To carry out this agreement we are requesting $2,100,000 in Fiscal Year 1982.

Should this supplemental request fail to gain approval, the Bureau of Government Financial Operations will run out of money by mid-June. Given that this Bureau is the Government's principal disbursing agent, accountant and financial manager, the impact of such an event would be to essentially shut down the entire Federal Government.

In addition to the above, there is also a separate supplemental request in the amount of $200,000 to cover payments of unpaid deposits under the Postal Savings System Liquidation. Unpaid deposits totaling $65 million were transferred from the Postal Service to the Secretary of the Treasury for liquidation by legislation passed in 1966. Except for $6 million in payments to the states, all funds have now been paid out in claims, the last payment having been made in December, 1981. Currently, almost 100 entitled payees are awaiting payment pending passage of this supplemental request while over 400,000 accounts still remain unclaimed. The additional funds are being requested so that the needs of this program may be met during FY 1982.

The Bureau is also requesting a pay supplemental in the amount of $2,588,000 to cover the cost of the pay increase which was effective on October 1, 1981.

STATEMENT OF DONNA POPE

MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE, THIS IS MY FIRST OPPORTUNITY SINCE BEING CONFIRMED AS DIRECTOR OF THE MINT TO HAVE THE PLEASURE OF TESTIFYING BEFORE YOUR COMMITTEE. FISCAL YEAR 1982 HAS BEEN A MOST INTERESTING AND CHALLENGING BUDGET YEAR.

I AM PLEASED TO PRESENT FOR YOUR CONSIDERATION, THE FISCAL YEAR 1983 APPROPRIATION REQUEST FOR OPERATIONS OF THE BUREAU OF THE MINT.

1983 BUDGET REQUEST

FOR FISCAL YEAR 1983, WE ARE REQUESTING AN APPROPRIATION OF $50.165 MILLION FOR SALARIES AND EXPENSES FOR THE YEAR. THIS IS AN INCREASE OF $2.676 MILLION FROM THE AUTHORIZED TOTAL OF

$44.103 million under the current FY 1982 continuing resolution and the 1982 pay increase supplemental of $3.386 million which has been transmitted to the Congress for separate consideration.

This increase is composed of the following major changes:

-- An increase of $.279 million for pay raises already granted in FY 1982;

-- An increase of $3.675 million to offset inflation for utilities, production related supplies, commercial and government telecommunications costs, rental costs, and the costs for services received from other government agencies and commercial sources;

-- An increase of $1.838 to restore one time savings being accomplished in FY 1982 through the temporary closing of the Philadelphia Coinage Strip Facility;

-- Program increase of $1.384 providing increased overtime funding for the production of coins and increased funding for the replacement of worn-out and obsolete production related equipment;

-- Decreases of $4.5 million and 191 permanent positions due to closure of the New York Assay Office, conversion to the zinc one-cent coin and other program reductions.

Revenues resulting from fiscal year 1983 operations of the Bureau of the Mint are estimated to be about $724 million including seigniorage of $516 million and $208 million from the sale of gold medallions and miscellaneous numismatic programs.

1982 FUNDING SITUATION

Under the fourth Continuing Resolution, which excludes the pay increase supplemental, our funding level is $44.103 million or 16% below the President's March request for 1982. Since the primary mission of the Mint is the production of coins, we applied this reduction to those areas which did not directly affect coinage.

BACKGROUND

The President's September revision to the Budget set a level of $45.941 million equating to a 12% reduction. We plan to achieve this by the closure of the New York Assay Office; the curtailment of purchases of equipment, supplies, and services; reduction of travel and training; and reduced personnel costs by the continuation of a hiring freeze, curtailment of overtime, and the reduction of in-house coinage strip production. The Third and Fourth Continuing Resolutions provided for a level of $44.103 million equating to an additional 4% reduction below the President's September request. This coupled with delays in the closing of the New York Assay Office caused us to take additional measures which included the imposing of a furlough, additional cuts in travel and supplies, and the temporary closing of the Philadelphia coinage strip operations. By temporarily closing the strip operation, we were able to transfer those employees to coin production thereby allowing us to reduce overtime expenditures as well.

With this background, I would now like to further discuss the Mint's operations for fiscal year 1982 and our plans for fiscal year 1983.

COIN REQUIREMENTS

Coin demand estimates for Fiscal Year 1982 range from 16.0 billion to 19.2 billion coins. With production budgeted at 18.2 billion, Mint and Federal Reserve inventories could continue to decline depending on actual demand. Inventories at the Mint and Federal Reserve, on December 31, 1981, excluding dollar coins, totaled 622 million and 1.98 billion coins respectively.

The low inventory of one-cent coins continues to be a concern and we have been increasing production to the degree possible. Cent inventories on December 31, 1982, were 140 million at the Mint and 470 million at Federal Reserve Banks. Production for Fiscal Year 1982 is budgeted at 13.32 billion cents. However, the Federal Reserve Banks are requesting 15.3 billion. For the past two years, the Federal Reserve Banks have been allocating to commercial banks at a rate of approximately

1.1 BILLION CENTS PER MONTH. HOWEVER, BECAUSE OF OUR RECENT CONCENTRATION ON ONE-CENT PRODUCTION, WE HAVE BEEN ABLE TO SHIP ADDITIONAL CENTS. MONTHLY REQUESTS RECEIVED FROM THE BANKS HAVE RUN AS HIGH AS 1.5 BILLION CENTS PER MONTH.

COIN DEMAND FOR FISCAL YEAR 1983 IS ESTIMATED TO RANGE FROM 18.1 TO 20.8 BILLION COINS.

COIN PRODUCTION

THE MINT HAS SEVEN (7) FIELD OFFICES OF WHICH FOUR (4) ARE ENGAGED IN THE COIN MANUFACTURING PROCESS. THEY ARE: THE PHILADELPHIA AND DENVER MINTS, THE SAN FRANCISCO ASSAY OFFICE, AND THE WEST POINT BULLION DEPOSITORY. A VARYING RANGE OF COIN RELATED ACTIVITIES ARE CONDUCTED AT EACH FIELD OFFICE. THE PHILADELPHIA MINT MANUFACTURES ALL DIES AND PRODUCES COINS OF ALL DENOMINATIONS. IN ADDITION TO COIN PRODUCTION THE PHILADELPHIA MINT HAS THE CAPABILITY TO PRODUCE 30 MILLION POUNDS OF COINAGE STRIP. THE DENVER MINT PRODUCES COINS OF ALL DENOMINATIONS; THE SAN FRANCISCO ASSAY OFFICE PRODUCES ONE-CENT COINS AND MANUFACTURES AND PACKAGES PROOF COIN SETS. WEST POINT PRODUCES ONE-CENT COINS AND IN ADDITION PRODUCES AND PACKAGES THE 1/2 OUNCE AND 1 OUNCE GOLD MEDALLIONS.

THE MINT WILL MEET PROJECTED COIN DEMAND BY PRODUCING 17.6 BILLION COINS AND DIMINISHING ITS INVENTORY. THESE COMBINED ACTIONS WILL PERMIT THE MINT TO SHIP 18.8 BILLION COINS IN FISCAL YEAR 1983 WHICH IS WITHIN THE PROJECTED RANGE OF COIN DEMAND.

IN 1983 ALL MINT COINING FACILITIES WILL BE PRODUCING THE NEW ONE-CENT COIN. CONVERSION TO THIS NEW COIN WILL PRODUCE SAVINGS OF APPROXIMATELY $28 MILLION, $3 MILLION IN REDUCED PRODUCTION COSTS WHICH HAVE BEEN DEDUCTED FROM THE 1983 SALARIES AND EXPENSES REQUEST AND $25 MILLION SAVED IN THE COINAGE METAL FUND DUE TO LOWER METAL COSTS.

DEPOSIT ACTIVITY

THE DEPOSIT ACTIVITY INCLUDES THE COST OF PREPARING, STORING, AND LOADING COINS FOR SHIPMENT FROM THE MINT; AND THE SHIPPING, STORING AND VERIFYING OF GOLD AND SILVER BULLION. THE MAJOR ELEMENT OF COST IN THIS ACTIVITY INVOLVES

THE HANDLING, STORAGE AND SUBSEQUENT RELEASE OF NEW COINS TO THE FEDERAL RESERVE BANKS.

PROTECTION

THE SECURITY STAFF CONTINUES TO IMPROVE THE PROTECTION PROVIDED MINT ASSETS AND FACILITIES. A MODEL SECURITY EXIT CONTROL PROGRAM DEVELOPED AT THE WEST POINT BULLION DEPOSITORY HAS BEEN IMPLEMENTED AT THE DENVER MINT.

BY DIRECTION OF THE SECRETARY OF THE TREASURY, MINT POLICE AND PRODUCTION PERSONNEL TRANSPORTED 1.6 MILLION OUNCES OF FINE GOLD TO THE BANK OF ENGLAND IN FEBRUARY 1981 TO COMPLY WITH AN AGREEMENT BETWEEN THE UNITED STATES AND THE BRITISH GOVERNMENT. THE MINT POLICE MAINTAINED CUSTODY OF THE SHIPMENT FROM DEPARTURE FROM THE NEW YORK ASSAY OFFICE TO ARRIVAL AT THE BANK OF ENGLAND, LONDON, UNITED KINGDOM. THE GOLD WAS TRANSPORTED WITH THE ASSISTANCE OF THE DEPARTMENT OF DEFENSE AND THE U.S. SECRET SERVICE.

REFINING

THE FUNDING OF $663,000 IN THE FISCAL YEAR 1983 REFINING ACTIVITY IS TO COVER THE COST AT THE NEW YORK ASSAY OFFICE TO COMPLETE PAYMENTS FOR SEVERANCE PAY OF REFINERY PERSONNEL AND THE RECLAMATION OF PRECIOUS METAL FROM EQUIPMENT AND STRUCTURES.

EXPANSION/IMPROVEMENT PLAN

IN ORDER TO MEET THE PROJECTED DEMAND OF 22 BILLION COINS PER YEAR IN FISCAL YEAR 1985 A PHASED MINT-WIDE EXPANSION/IMPROVEMENT PLAN HAS BEEN IMPLEMENTED. THIS PROGRAM WAS THE RESULT OF COMPREHENSIVE STUDIES COMPLETED BY THE GENERAL ACCOUNTING OFFICE IN 1976 AND MINT STAFF IN 1978. OF FUNDS PREVIOUSLY APPROPRIATED FOR CONSTRUCTION OF NEW MINT FACILITIES, THE BALANCE OF $5.7 MILLION HAS BEEN MADE AVAILABLE FOR A LIMITED EXPANSION OF THE DENVER MINT WHICH WILL BE ACCOMPLISHED IN COORDINATION WITH THE GENERAL SERVICES ADMINISTRATION.

THE EXPANSION/IMPROVEMENT AMOUNT FOR FISCAL YEAR 1982 WAS APPROXIMATELY $4 MILLION AS APPROVED IN THE FOURTH CONTINUING RESOLUTION. THE FISCAL YEAR 1983 REQUEST OF $5.2

MILLION WILL ALLOW SITE MODIFICATIONS AT THE SAN FRANCISCO ASSAY OFFICE AND CONTINUED MODIFICATIONS AT THE DENVER MINT.

MAJOR EQUIPMENT ACQUISITIONS ARE PLANNED FOR THE DENVER AND PHILADELPHIA MINTS WHICH INCLUDE STAMPING PRESSES, CONVEYOR SYSTEMS, AUTOMATED COIN LINES, SOUND ENCLOSURES AND OTHER RELATED COINAGE EQUIPMENT.

UPON COMPLETION OF THIS MULTI-YEAR PROGRAM, THE MINT WILL HAVE INCREASED COINING CAPACITIES FROM 17.1 BILLION COINS TO 22 BILLION COINS ANNUALLY. THIS CAPACITY IS FIGURED ON 3 EIGHT HOUR SHIFTS, 5 DAYS PER WEEK. AT THE SAME TIME, THE MINT WILL HAVE PROVIDED A SAFER, MORE EFFICIENT WORKING ENVIRONMENT FOR ITS EMPLOYEES.

PERSONNEL

OUR EMPLOYMENT LEVEL FOR FISCAL YEAR 1983 WILL BE 2,083 (FTE) WORK YEARS (1,266 FROM APPROPRIATED FUNDS AND 817 FROM NUMISMATIC AND OTHER REIMBURSABLE ACTIVITIES). THIS IS 94 FEWER APPROPRIATED WORK YEARS THAN WAS AUTHORIZED IN FISCAL YEAR 1982. THIS REDUCTION IS THE RESULT OF THE CLOSURE OF THE NEW YORK ASSAY OFFICE AND THE INTRODUCTION OF THE ZINC ONE-CENT COIN.

EQUAL EMPLOYMENT OPPORTUNITY

THE BUREAU-WIDE SPECIAL EMPHASIS PROGRAM HAS MADE SIZEABLE GAINS REGARDING THE IMPLEMENTATION OF EEO/AFFIRMATIVE GOALS CONSIDERING THE OVERALL FISCAL RESTRAINTS. AS OF JUNE 30, 1981, OUR CUMULATIVE TOTALS IN THESE PROGRAMS ARE AS FOLLOWS: UPWARD MOBILITY (CADE) (4), COOPERATIVE EDUCATION (3), FEDERAL JUNIOR FELLOWSHIP (1), HANDICAP (23), PART-TIME EMPLOYEES (6), STAY-IN-SCHOOL (17) AND VETERANS READJUSTMENT APPOINTMENT (86). OUR BUREAU-WIDE MINORITY/WOMEN STATISTICS ARE MINORITY MEN 30%, MINORITY WOMEN 13% AND NON-MINORITY WOMEN 7%.

WE HAVE JOINED A COMMUNITY BASED PROGRAM CALLED THE ADOPT-A-SCHOOL PROGRAM WHICH BRINGS TOGETHER RESOURCES FROM PRIVATE AND PUBLIC COMMUNITY ORGANIZATIONS AND THE WASHINGTON, D.C. PUBLIC SCHOOLS. THE PRIMARY THRUST OF THIS PROGRAM

IS TO ENLIGHTEN WASHINGTON, D.C. PUBLIC SCHOOL YOUTHS OF THE MULTITUDE OF CAREERS AND JOB OPPORTUNITIES AVAILABLE AFTER SECONDARY OR POST-SECONDARY EDUCATION.

INTERNAL AUDIT

INTERNAL AUDIT IS A VERY ACTIVE PART OF THE MANAGEMENT OF THE MINT, AND AN ESSENTIAL SOURCE OF ASSISTANCE IN MAKING THE MINT PROGRAMS MORE EFFECTIVE AND ECONOMICAL.

FISCAL YEAR 1981 MAJOR AUDITS INCLUDED THE EVALUATION OF CONTRACT PROPOSALS FOR THE ZINC COATED PENNY AND COIN PRESSES; AND CASH MANAGEMENT ACTIVITIES.

AN EXAMPLE OF THE EFFECTIVENESS OF THE INTERNAL AUDIT PROGRAM, WAS THE TRANSFERRING OF OUR COIN SET OPERATION FROM AN OFFSITE GSA FACILITY TO THE SAN FRANCISCO ASSAY OFFICE. THE TERMINATION OF THE LEASED FACILITY WILL RESULT IN AN ANNUAL SAVINGS OF $100,000 IN LEASING COST AND SUBSTANTIAL SAVINGS IN SECURITY COSTS.

CONTINUING AUDITS OF GOLD

A PROGRAM FOR THE CONTINUING AUDIT OF UNITED STATES-OWNED GOLD COMMENCED IN 1974 WHEN THE TREASURY DEPARTMENT, WITH THE PARTICIPATION OF THE UNITED STATES GENERAL ACCOUNTING OFFICE, CONDUCTED AN AUDIT AT THE FORT KNOX BULLION DEPOSITORY. CONTINUING AUDITS ARE PERFORMED AT EACH MINT DEPOSITORY WITH THE OBJECTIVE OF AUDITING ABOUT TEN PERCENT ANNUALLY UNTIL THE ENTIRE STOCK HAS BEEN VERIFIED.

THROUGH THE END OF FISCAL YEAR 1981 OVER SEVENTY-NINE PERCENT OF UNITED STATES-OWNED GOLD BULLION IN PERMANENT STORAGE AT MINT DEPOSITORIES HAS BEEN AUDITED AND FOUND TO AGREE WITH THE RECORDS. THIS REPRESENTED 208.8 MILLION OF THE 264.1 MILLION FINE TROY OUNCES OF GOLD BULLION OWNED BY THE UNITED STATES AS OF SEPTEMBER 30, 1981.

THESE AUDITS WERE PERFORMED JOINTLY BY THE BUREAU OF THE MINT AND THE BUREAU OF GOVERNMENT FINANCIAL OPERATIONS WITH REPRESENTATIVES OF THE UNITED STATES GENERAL ACCOUNTING OFFICE GENERALLY PRESENT AS OBSERVERS.

SAFETY AND HEALTH

THE BUREAU OF THE MINT BEING AN INDUSTRIAL FACILITY PLACES A HIGH PRIORITY ON THE SAFETY AND HEALTH OF ITS EMPLOYEES. EACH OF OUR FACILITIES HAS AN ACTIVE SAFETY PROGRAM WHICH IDENTIFIES AND RECOMMENDS CORRECTIVE MEASURES FOR THE IMPROVEMENT OF THE WORK ENVIRONMENT.

SINCE 1977 THE NUMBER AND SEVERITY OF DISABLING INJURIES HAS DECREASED. THE FREQUENCY RATE FOR DISABLING INJURIES HAS DECREASED BY 35%.

AUTOMATIC DATA PROCESSING

THE BUREAU OF THE MINT DATA CENTER IS LOCATED IN THE SAN FRANCISCO OLD MINT. COMPUTER SERVICES ARE PROVIDED TO ALL ORGANIZATIONS WITHIN THE BUREAU OF THE MINT, OTHER TREASURY BUREAUS AND OTHER GOVERNMENT AGENCIES AS EXCESS COMPUTER TIME IS AVAILABLE.

THE NUMISMATIC COIN OPERATION SYSTEM, WHICH SERVICES THE MINT'S COIN SET, MEDAL SALES AND GOLD MEDALLION PROGRAMS, AND THE TREASURY PAYROLL/PERSONNEL INFORMATION SYSTEM (TPPIS) ARE THE MAJOR APPLICATIONS.

NUMISMATIC AND REIMBURSABLE

OUR REIMBURSABLE NUMISMATIC COINAGE AND MEDAL PROGRAMS FOR FY 1983 WILL INCLUDE: PROOF COIN SETS, GEORGE WASHINGTON COMMEMORATIVE HALF-DOLLARS, BICENTENNIAL PROOF AND UNCIRCULATED COIN SETS, AND LIST AND CONGRESSIONALLY AUTHORIZED MEDALS. SALES AND EXHIBIT AREAS PROVIDING SPECIAL SOUVENIR SETS AND RELATED ITEMS FOR PURCHASE BY CONSUMERS, ARE FINANCED FROM REIMBURSABLE INCOME. THESE PROGRAMS WILL RESULT IN ESTIMATED GENERAL FUND REVENUES OF $7.7 MILLION.

WE UNDERTAKE TO MANUFACTURE FOREIGN COINAGE ONLY WHEN THERE IS EXCESS CAPACITY AND THERE WILL BE NO IMPACT ON DOMESTIC COINAGE. DUE TO DOMESTIC COINAGE PRODUCTION WORKLOADS, THE MANUFACTURE OF COINS FOR FOREIGN GOVERNMENTS HAS DIMINISHED AND WE PROJECT THAT IT WILL CONTINUE AT A LOW RATE IN FY 1983.

GOLD MEDALLIONS

THE AMERICAN ARTS GOLD MEDALLION ACT SIGNED INTO LAW NOVEMBER 10, 1978, MANDATED THE STRIKING AND SALE OF HALF OUNCE AND ONE OUNCE GOLD MEDALLIONS OVER A 5 YEAR PERIOD. THE 1980 AND 1981 PROGRAMS FOR THE SALE OF THESE MEDALLIONS WERE CONDUCTED ON A CUMBERSOME MAIL ORDER BASIS. AS A MAJOR INITIATIVE, WE ARE EXPLORING THE DEVELOPMENT OF A DEALER NETWORK FOR FUTURE GOLD MEDALLION SALES.

GEORGE WASHINGTON COMMEMORATIVE HALFDOLLAR

THE GEORGE WASHINGTON COMMEMORATIVE COIN ACT AUTHORIZED THE TREASURY TO ISSUE UP TO 10 MILLION 90% SILVER COMMEMORATIVE HALF-DOLLARS TO HONOR THE 250TH ANNIVERSARY OF GEORGE WASHINGTON'S BIRTH. THIS WILL MARK THE FIRST TIME SINCE 1954 THAT THE MINT HAS PRODUCED A 90% SILVER COMMEMORATIVE COIN.

THESE COINS WILL BE DISTRIBUTED BY THE TREASURY DEPARTMENT AND WILL BE MADE AVAILABLE IN BOTH PROOF AND UNCIRCULATED CONDITION. MARKETING METHODS AND PRICING ARE STILL BEING FORMULATED. THESE COINS WILL BE DATED 1982 AND WILL BE PRODUCED DURING CALENDAR YEARS 1982 AND 1983.

THIS COMPLETES MY PREPARED REMARKS AND I WILL BE PLEASED TO ANSWER ANY QUESTIONS YOU MAY HAVE.

STATEMENT OF W. M. GREGG

Mr. Chairman and Members on the Committee, I appreciate this opportunity to discuss with you our 1983 appropriation request for "Administering the Public Debt." This appropriation provides funds for the Bureau of the Public Debt and the U.S. Savings Bonds Division. The latter is a separate organization responsible for promoting the sale of savings bonds. Their requirements are separately identified in the justification material.

The Bureau of the Public Debt is a service organization with responsibility for the administrative functions required for the conduct of Treasury's debt financing activities.

Those functions relate to transactions in security issues of the United States and of those Government agencies for which the Treasury acts as agent.

The Bureau maintains an office in Parkersburg, West Virginia, as well as the headquarters office in Washington, D.C. The Federal Reserve Banks and Branches conduct public debt transactions as fiscal agents of the United States. Most banks and other financial institutions act as issuing and paying agents for the sale and redemption of savings bonds and notes.

Workload for the Bureau is generated by Treasury financing necessary to fund Federal programs and operations and to refund debt outstanding. The size of the workload is dictated by the size, frequency and extent of public participation in Treasury offerings. The Bureau must issue, service and redeem the securities which are the tangible results of those offerings.

Only about 32 percent of the appropriation is allocated to Bureau operations. Some 7 percent is allocated to the Savings Bonds Division, and the balance is required to reimburse the fiscal agents, issuing and paying agents, and the Postal Service for contractual services.

FY 1983 APPROPRIATION REQUEST

We are requesting an appropriation of $210,045,000 to carry out the responsibilities of the Bureau of the Public Debt and the Savings Bonds Division in fiscal year 1983. The 1983 request is $33,405,000 over the amount available for FY 1982. Program increases amount to $20,765,000, and other increases necessary to maintain current levels total $15,791,000. These increases are partially offset by reductions of $3,151,000 from savings and non-recurring costs.

I would like to point out to the Committee that the increase from 1982 to 1983 is a bit overstated, since the 1982 amounts exclude the October 1, 1981 pay increase, while the 1983 amounts reflect that pay increase. Since this budget was submitted, OMB has forwarded the 1982 pay supplemental to the Congress. This supplemental, if approved, will have the effect of increasing our FY 1982 funding level.

SAVINGS BOND PROGRAM

This budget request assumes that sales of savings bonds will increase and that redemptions will be high in fiscal year 1983. Savings bonds sales are projected to rise to 91 million bonds in 1983, a 31 percent increase over the 1982 budgeted level. We anticipate that the legislation proposed by the Secretary of the Treasury to link the savings bond interest rate with the rate paid on marketable notes will help to increase sales and strengthen the savings bond program. Savings bonds redemptions are projected to increase 10 percent over the 1982 estimate, for a total of 156,000,000 redemptions.

Higher volumes of savings bond issues and redemptions will require an increase of $11,189,000 for fees to reimburse financial institutions and others who issue and redeem savings bonds. Printing and mailing the increased number of securities will require increases of $673,000 and $3,907,000, respectively. The Bureau will also require an additional $490,000 for support services, including supplies, printing of forms used by the Federal Reserve Banks, and transportation of securities.

MARKETABLE SECURITIES

The budget request for processing marketable and special securities, including registered and book-entry accounts, assumes the level of activity will remain very high in 1983. The Bureau auctioned $683 billion in marketable bills, bonds, and notes in FY 1981 to refund maturing securities and raise $91 billion in new cash.

The participation of small investors in short-term Treasury bills has grown very rapidly over the past several years because of record high interest rates. In FY 1981 the number of new book-entry Treasury bill accounts established rose more than 60% above the FY 1980 level. As of the end of March, the Bureau was maintaining 842,357 accounts, somewhat more than the level this budget projects for the end of FY 1983.

Individual investors have also been attracted in large numbers to Treasury note and bond issues. In FY 1981 we issued 760,000 registered and coupon securities to investors on original issue transactions. We are currently maintaining 583,000 accounts for registered owners.

An additional $133,000 for postage and $155,000 for supplies and other support services is needed in FY 1983 for this activity.

FEDERAL RESERVE BANK REIMBURSEMENTS

Reimbursements to the Federal Reserve Banks, for the work they perform as fiscal agents of the Treasury, are projected to increase by $4.2 million in FY 1983. This increase is required as result of higher volumes as well as personnel and other cost increases. In FY 1983 reimbursements to the Federal Reserve Banks will total $41,453,000.

PRODUCTIVITY SAVINGS

The Bureau will reduce its staffing requirements in FY 1983 by 67 positions by increasing productivity and making other management improvements. The total savings to the Bureau will be $1,214,000.

PAYING AGENT FEES

This budget includes funding for paying agent fees at the full rate established in FY 1981. Funding constraints will prevent paying the full rate for all of the current fiscal year; however, the 1983 request will restore this program to its established level.

CONCLUSION

Mr. Chairman, this concludes my prepared remarks. We will be glad to answer any questions you and the members of your committee may have.

STATEMENT OF STEVEN R. MEAD

Mr. Chairman and members of the Committee, it is a pleasure for me to be here today with my colleagues to present the 1983 appropriation request of the United States Savings Bonds Division.

The Savings Bonds Program during the last several years has been the victim of unfavorable economic conditions. The current interest rate of 9 percent for Savings Bonds held to maturity is good but not sufficiently competitive. Interest rates on some other savings and investment instruments are higher and have had a substantially adverse effect on the sale and retention of Savings Bonds.

Under current legislation, Treasury may increase interest on Savings Bonds up to one percent each six months. Accordingly, Treasury increased the maximum rate on these Bonds from 7 to 8 percent and to 9 percent each eligible period. We did not increase the rate to

10 percent last October, announcing that Treasury planned to seek legislation to permit pegging the Savings Bonds rate to market rates.

The allowable rates under existing law have not been sufficient to stem the Savings Bonds cash drain from the Treasury, because of higher interest rates available from other market instruments. Savings Bond redemptions exceeded sales by over $5 billion in 1979, over $11 billion in 1980 and about $8.7 billion in 1981. These cash drains from the Savings Bond Program must be financed by other, more expensive, Treasury borrowing in the form of issuance of additional marketable securities at interest rates much higher than the Savings Bonds rate.

The Treasury has proposed legislation to modernize the Savings Bonds Program. The proposed legislation would enable the Treasury to link the interest rate on Savings Bonds to market rates of interest. Savers would be provided a "floating" interest rate on Savings Bonds in order to make them more competitive with alternatives during periods of generally rising rates. They would be guaranteed minimum rates which would gradually rise through the fifth year. All Bonds held for longer than five years would earn interest at a rate equal to 85% of the average market yield on five-year Treasury securities during the holding period, or the guaranteed minimum rate, whichever is higher. Existing Savings Bonds held for an additional five-year period would also be eligible for interest payments under the new rates. All other features of Savings Bonds - including denominations, tax advantages, payroll savings plans - would remain the same.

This proposal will make Savings Bonds more attractive to investors and thereby preserve a useful means of financing the Federal debt in a cost-effective manner. It will provide small savers wishing to continue their participation in the Savings Bond Program with a unique Federal security that earns a market related rate of interest with an investment as small as $25.

Upon approval of the proposed legislation, it will be essential to promptly and fully inform the public of the new interest terms in order to gain full advantage of the improved rates. Wide dissemination of this information will be important in overcoming the adverse publicity that the Program received because of the more advantageous terms hitherto offered by competitive savings and investments.

Fiscal Year 1983 Budget Request

The appropriation request for fiscal year 1983 totals $14,822,000. This is a decrease of $333,000 from the proposed authorized level for 1982.

Increases necessary to maintain current levels total $960,000. These increases are offset by program reductions and savings of $1,293,000.

In the original submission of February 8, 1982, no supplemental was included for the pay increase of 1982 consequently the appropriation request for 1983 was $247,000 more than the proposed authorized level for 1982. The subsequent submission of a supplemental request for the pay increase results in the 1983 appropriation request being $330,000 less than the 1982 proposed authorized level.

The appropriation request for fiscal year 1983 provides for a reduction of 70 average positions below the 1982 estimated level. This is the result of reductions in 1982 achieved through a reorganization of our headquarters and field staff eliminating six Regional Office Headquarters, closing 18 field offices, and reducing the staff of remaining offices. These 1982 reductions produced carryover savings of 50 average positions. In addition, plans to contract out the Chicago promotional materials distribution function will save 20 average positions in 1983.

In order to operate most effectively with reduced staff, we will concentrate our efforts on larger accounts and in denser population areas in order to obtain the maximum return with our limited resources. We will continue to rely heavily on unpaid volunteers from government, business and industry -- volunteers who know Savings Bonds, appreciate their benefits and welcome the challenge of leadership in a worthy cause. Outstanding leaders from many fields of endeavor make up the working committees, whose services are utilized at the national, state and local levels. The entire campaign will be supported through local publicity and a nationwide public service advertising campaign sponsored by the Advertising Council which over the past five years has averaged over $70 million a year in contributed advertising.

We anticipate that with approval of a "floating" interest rate, the Savings Bond Program will be revitalized and restored to the effectiveness it had previously demonstrated from its inception in 1941.

Mr. Chairman and members of the Committee, this concludes my statement. We will be happy to answer any questions that you may have for us, and with your permission, we have some sales charts that we would like to have inserted in the record.

Savings Bonds Sales

Chart 1 shows Bonds sales for the past 34 fiscal years, from 1947 through 1981, and for the transition quarter, July 1, 1976 through September 30, 1976. The top line shows the total combined sales of Series E and H Bonds from 1952, [1] when H Bonds were first introduced, through 1980.

Combined sales of over 5 billion dollars in the mid-fifties -- 5.2 billion dollars in 1955 and 5.3 billion dollars in 1956 -- were the result of Series H sales of over a billion dollars in both years. Since 1971, Series E Bonds have been the primary factor in the increase in total Savings Bonds sales volume. In 1973 total sales went over the 6 billion dollar mark for the first time. In fiscal 1978 sales surpassed 8 billion dollars, and in fiscal 1981 they amounted to 3.4 billion dollars.

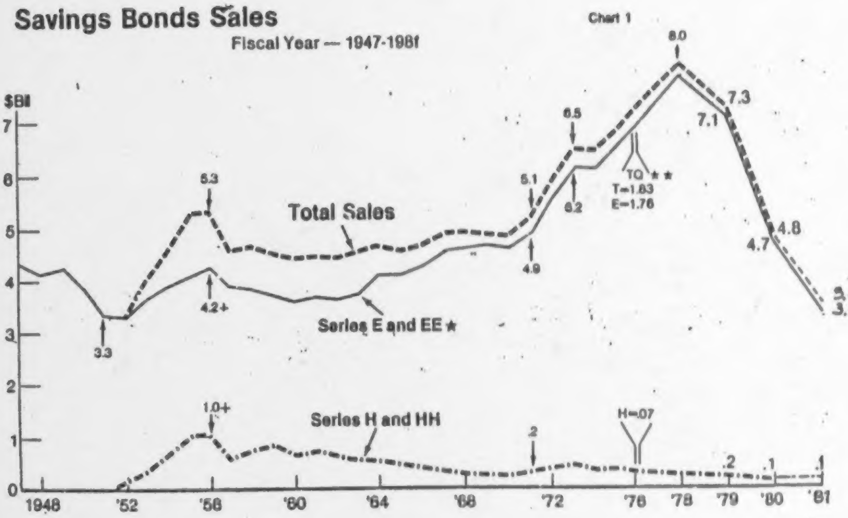
The line for E Bonds shows sales since 1947 (including 862 million dollars worth of Freedom Shares sold during the period May 1, 1967 through June 30, 1970). In fiscal 1981 E and EE sales were 3.3 billion dollars.

[1] Includes Series EE and HH from January 1, 1980.

Savings Bonds Sales

Fiscal Year — 1947-1981

Chart 1



★ Includes Savings Notes (Freedom Shares) sold May 1, 1967 through June 30, 1970

★ ★ Transition Quarter (July 1, 1976 through Sept. 30, 1976) Fiscal Year 1977 began October 1, 1976.

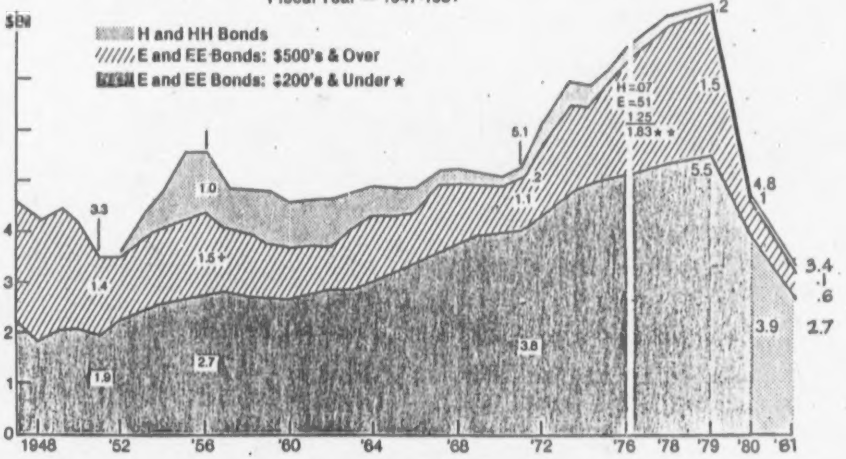
The Series H and HH Bond sales are shown by the bottom line. In 1981 there were 53 million dollars in sales.

Denomination Sales

Chart 2 shows denomination sales. It compares the smaller denomination E and EE Bonds (200 dollars and under) with the larger denomination E and EE Bonds and H and HH Bonds.

Of the 3.4 billion dollars of E, EE, H and HH Bonds sold in fiscal 1981, 2.7 billion dollars were in the 200 and under denomination Series E and EE Bonds. These smaller denominations now represent more than four-fifths of the sales dollar, compared to less than half of savings bonds sales in the early years. The growth in the 200 dollar and under denominations (small denominations as a group dropped by 31 percent) showed an increase in the $75 and the $200 denomination which reinforces the evidence that Americans still believe in regular, steady savings programs like the payroll deduction plans for purchasing Series EE Savings Bonds.

There has been an expansion in sales of these smaller denomination bonds since 1962. In that year the U.S. Industrial Payroll Savings Committe was organized. The members of this committee -- outstanding leaders in business and industry -- have greatly stimulated payroll savings purchases through their personal cooperation and their effective leadership.



Savings Bonds Sales by Denomination

Fiscal Year — 1947-1981

Chart 2

★ Includes Freedom Shares, sold May 1967 through June 1970

★ ★ Transition Quarter (July 1, 1976 through September 30, 1976) Fiscal Year 1977 began October 1, 1976

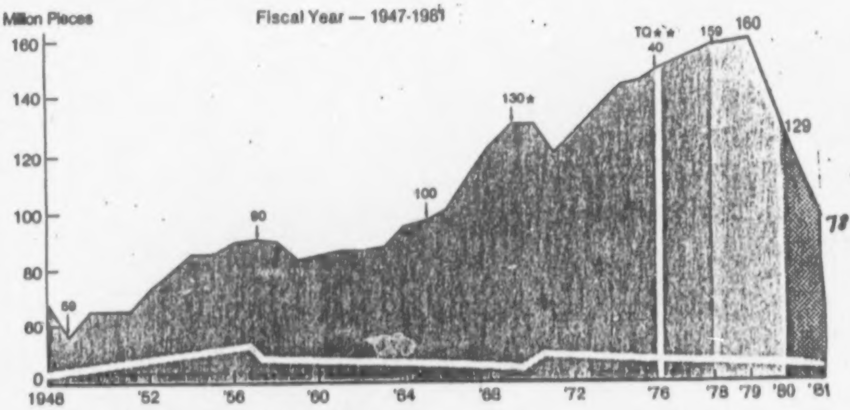
This chart also compares the steady growth line of the small denominations with the fluctuations in the larger denomination bond sales. Sales of larger denomination bonds are more influenced by variations in the competitive interest rate position, as well as by the general savings trend, and by changes in the annual limit on bond purchases.

Number of Bonds Sold

Chart 3 shows the number of individual bonds sold in the period since World War II. From a low of 59 million pieces in 1948 there has been a fairly steady increase in pieces sold, rising to 160 million in 1979. This past fiscal year 78 million pieces were sold*. Over 95 percent of the pieces sold are in the 200 dollar and under E and EE denominations, the denominations purchased mainly by payroll savings plan participants. This payroll market is the one in which we concentrate most of our promotional resources. The interrupted growth in fiscal 1971 of the number of pieces sold resulted from the termination of the sale of Freedom Shares -- the small denomination notes sold to E Bond buyers. Around 30 million of these securities were sold between May 1, 1967 and June 30, 1970.

*Pieces have been adjusted upward to take into account book entry amounts which are included in monthly dollar sales figures.

Number of Bonds Sold★ Chart 3



★ Includes Freedom Shares, sold May 1967 through June 1970
★★ Transition Quarter (July 1, 1976 through September 30, 1976)

Annual Changes in Amount Outstanding

Chart 4 shows the annual change in the total amount outstanding of E, EE and H, HH Bonds in each of the past 36 fiscal years, beginning with 1946, and for the 1976 transition quarter.

In the late '40's, after the war years, Savings Bonds sales declined but redemptions also remained low and the amount outstanding increased each year at a moderate rate. With the introduction of the H Bond in 1952 and a small rate increase (2.9 to 3 percent) increased sales of Savings bonds contributed to an increased annual growth in holdings.

From 1971, following a year when there was a very small decrease in Bonds outstanding, thru 1979, the increase in E and H Bonds held averaged over 3.1 billion dollars a year.

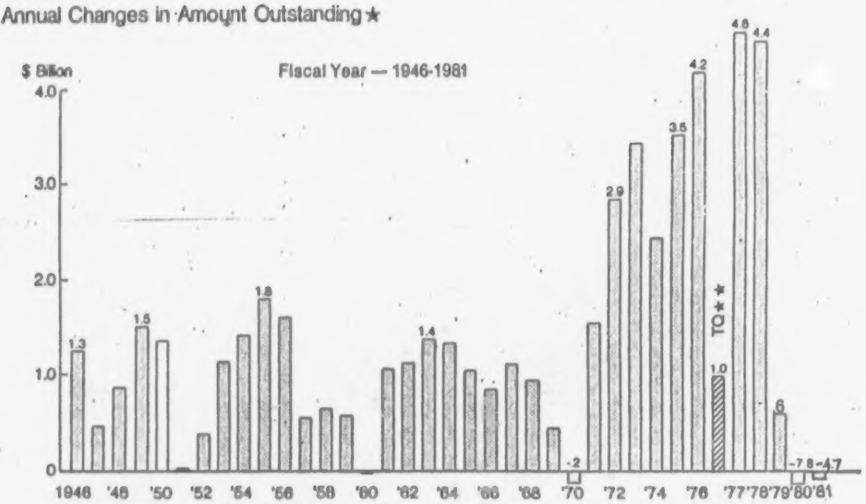
In the nine years from 1970 when the amount oustanding declined, holdings of E and H Bonds have increased by over 29 billion dollars. During 1981 there was a net loss of 4.7 billion dollars. The more competitive interest rates coupled with inflation greatly affected Savings Bonds holdings. Surveys have indicated that buyers are more drawn to Savings Bonds by their safety, stability and ease of purchase on the payroll savings plan.

Note: Fiscal year 1981 includes Series EE and HH on sale since January 1980.

E and H Bonds

Chart 4

Annual Changes in Amount Outstanding★



★ Includes Savings Notes (Freedom Shares) sold May 1, 1967 through June 30, 1970

★★ Transition Quarter (July 1, 1976 - September 30, 1976)

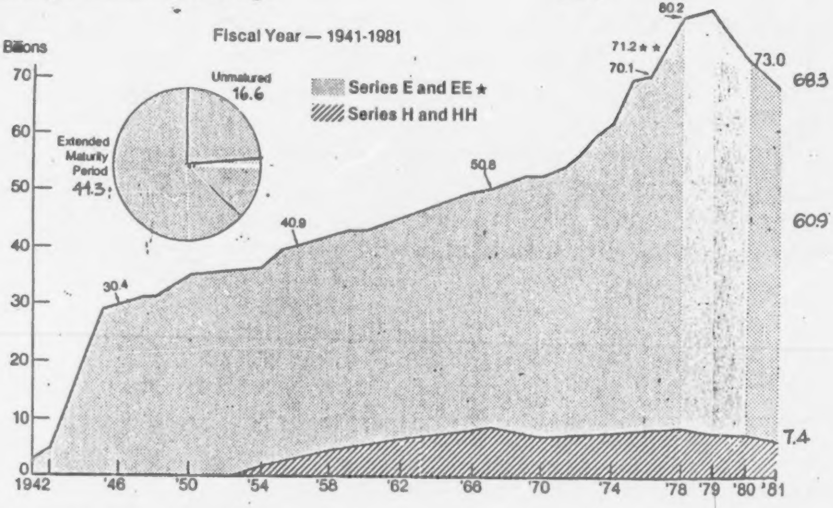
Savings Bonds Holdings

Chart 5 shows the cash value of E and H Bonds held at the close of each fiscal year and the 1976 transition quarter since the inception of the program in 1941.

There was a dramatic rise during the World War II years. On June 30, 1946 (six months after the termination of the Victory Loan), total holdings amounted to 30.4 billion dollars. The 40 billion dollar mark was passed in 1956 -- the 50 billion dollar mark in 1967 -- the 70 billion dollar mark in 1976 -- and the 80 billion dollar mark was surpassed in 1978. The amount outstanding at the fiscal year-end in 1981 dropped to 68.3 billion dollars. Of the 68.3 billion dollars held at the close of fiscal 1981, 7.4 billion dollars were in H and HH Bonds which have been sold since 1952. The major share, over sixty billion dollars, were in E and EE Bonds (and Freedom Shares amounting to less than one-half billion dollars). Of this 60.8 billion dollars, 74 percent (over 44 billion dollars) have passed their first term to maturity and are being held into an extension period. More than 345 million separate E Bonds are being held past the first maturity, more than half of all E Bonds now outstanding.

Savings Bonds Holdings

Chart 5



★ Includes Freedom Shares from May 1967
★★ End of Transition Quarter, September 30, 1976

BUDGET REQUEST

Ms. BEEBE. We are pleased to be here this morning with you to present our fiscal 1983 appropriation requests for the Office of the Secretary, the Bureau of Government Financial Operations, the Bureau of Public Debt, the Savings Bond Division, the Bureau of the Mint.

The subcommittee is well aware these bureaus represent diverse and critical functions for the U.S. Government.

In total, we are requesting $503.3 million for these appropriations.

Specifically for the Office of the Secretary, we are requesting $59.8 million, to support the activities of the Office of the Secretary. These moneys will help us assist the Secretary in carrying out his significant missions and functions, including economical and financial responsibility. Within this budget we are proposing this year to combine the salaries and expenses and international affairs appropriations. We believe this merger of these two very small appropriations will assist the Secretary to carry out his activities more smoothly and to reduce significantly unnecessary workload.

For the Bureau of Government Financial Operations, we are requesting $183 million. I would like just for the moment to highlight two proposals.

First of all, we are requesting $13.1 million for a new cash management initiative, whereby estimated tax payments for individuals would be mailed directly to commercial depositories rather than being mailed to the IRS. This proposal will speed the flow of receipts into the Treasury and, on a full-year basis, will save $89 million.

In addition, we are requesting authority to allow the Social Security Administration to reimburse the appropriation of the Bureau of Government Financial Operations to cover the costs of handling and mailing social security checks.

For the Bureau of the Public Debt, we are requesting $210 million, which includes $14.8 million for the Savings Bond Division. This is an increase of $31 million which is primarily directed to handling increased workload, specifically we expect an increase in the sales of savings bonds.

For the mint, we are requesting $50.2 million, an increase of $2.7 million. With this amount we expect to manufacture 17.6 billion coins. This, we hope, will meet our needs in 1983 and will enable us to produce coin strippage in Philadelphia again.

LANGUAGE CHANGE REQUEST

Finally, I would like to point out that we are asking for a change in our appropriation language. Specifically we are asking that you provide us the authority to transfer up to 5 percent of the appropriated amount from any appropriation of the Treasury to any other account. We would like to thank this committee for assisting us in the continuing resolution where we received authority to transfer up to 2 percent, and we would like to have such authority again in 1983.

This concludes my very brief remarks. We would like to submit for the record the very detailed statements for each of these accounts and my overview statement.

REIMBURSABLE POSITIONS

Senator MATTINGLY. Thank you very much.

I have a few questions for you, Ms. Beebe.

How many Treasury employees are not paid from the appropriated funds?

Ms. BEEBE. I do not know the exact amount but we can provide you a table for the record.

[The information follows:]

REIMBURSABLE POSITIONS (AVERAGE POSITIONS) FISCAL YEARS 1981, 1982, 1983

	1981	1982	1983
Office of the Secretary:			
Salaries and expenses	168	223	223
Working capital fund	86	86	86
Federal Law Enforcement Training Center			
Bureau of Government Financial Operations	94	95	826
Bureau of Alcohol, Tobacco and Firearms	14	15	
U.S. Customs Service:			
Salaries and expenses	844	1,031	1,024
Miscellaneous permanent appropriations	286	259	259
Bureau of Engraving and Printing	2,685	2,534	2,332
Bureau of the Mint:			
Salaries and expenses	825	817	817

REIMBURSABLE POSITIONS (AVERAGE POSITIONS) FISCAL YEARS 1981, 1982, 1983—Continued

	1981	1982	1983
Bureau of the Public Debt			
Internal Revenue Service	716	815	850
U.S. Secret Service			
Comptroller of the Currency	3,071	3,005	2,765
Total	8,792	8,880	9,182

NONAPPROPRIATED FUNDS

Ms. BEEBE. We have reimbursable positions in the mint from our numismatic program. We have positions from the Engraving and Printing Bureau, which is all on nonappropriated funds.

The Comptroller of the Currency is also on nonappropriated funds, and we will give you a detailed breakout of the positions there.

Do you have a rough estimate, Mr. Kallen?

Mr. KALLEN. It is in the 4,000 to 5,000 range because of the two bureaus which are on the revolving fund.

Senator MATTINGLY. Is the Department reimbursed for employee expenses by a foreign government?

Ms. BEEBE. Yes, we are. We receive funds from the Saudi Arabian Government to carry out certain technical programs for them..

Senator MATTINGLY. Is this with the consent of Congress? I think that without the express consent of the Congress no Federal employee can accept a financial benefit from any king, prince, or state.

Are you all going to stop that practice or what is your——

Ms. BEEBE. We will check and give you the exact details of when we first established this program and its legal basis. The way it operates is as follows: We receive a lump sum amount from the Saudi Arabian Government and we put that into the general receipts of the Treasury. Our employees then are paid by regular Treasury funds.

Senator MATTINGLY. Well, still you are accepting financial remuneration from a foreign government.

Ms. BEEBE. That is right. And we do receive remuneration in other cases.

For example, we produce certain kinds of coins and currency for other governments for which we are reimbursed.

Senator MATTINGLY. You have no plans at this time to check into that and see the legality of it, what needs to be done?

Ms. BEEBE. We will be happy to provide you with a statement from our counsel.

Senator MATTINGLY. Will you, please?

Ms. BEEBE. Yes.

[The information follows:]

FINANCIAL ARRANGEMENTS WITH SAUDI ARABIAN GOVERNMENT

The issue of the constitutionality of the financial arrangements between Federal agencies and the Saudi Arabian Government has been raised in the past. Most recently the General Accounting Office has sought our views on this subject.

In its request the General Accounting Office raised two questions regarding these arrangements:

1. Are the provisions in the Agreement establishing the United States-Saudi Arabian Joint Commission on Economic Cooperation pertaining to the manner in which the Saudi Arabian Government will cover United States costs self-executing or are they authorized by the Foreign Assistance Act of 1961, and, if so, by which provision of that Act? and;

2. Is Article I, §9, cl.8 (of the United States Constitution) applicable to the manner in which the Saudi Government covers the salaries of United States employees working on Commission projects, and, if so, do the authorities described in question 1 meet the requirements of that provision?

The relevant portions of our response are as follows.

Treasury pays the salaries of its employees in reimbursable positions by drawing checks on its International Affairs Appropriation, as it does for its employees whose salaires are not reimbursed. On a quarterly basis Treasury debits the Deposit Fund Account for the Saudi Arabian Technical Cooperation Agreement (TCA) for all expenditures incurred by Treasury under the TCA (including salaries of Treasury employees in reimbursable positions) during the preceding quarter and credits this amount to the Treasury International Affairs Appropriation. In a similar manner, other Federal agencies whose employees are performing reimbursable work under the TCA initially pay these employees from their own appropriations. The agencies bill Treasury for the amount of reimbursable services and Treasury transfers funds from the Deposit Fund Account to the other Agency.

For the reasons described herein, it is the view of this Department that the reimbursement of certain Treasury employees by the Saudi Government is permitted by the Constitution.

The TCA was entered into by the United States pursuant to the authority contained in Sectin 607(a) of the Foreign Assistance Act of 1961, as amended, 22 U.S.C. 2357(a).* Specific projects under-

---

Section 607(a) provides, in relevant part, that,

"Whenever the President determines it to be consistent with and in furtherance of the purposes of subchapter I of this chapter and within the limitations of this chapter, any agency of the United States Government is authorizied to furnish services and commodities on an advance-of-funds or reimbursement basis to friendly countries, international organizations, the American Red taken under the general authority of the TCA are embodied in agency-level implementing agreements, which are approved by the International Development Cooperation Agency in consultation with the Secretary of State (Section 1-102(b), E.O. 12163, September 29, 1979, as amended by E.O. 12226, July 22, 1980). Some of the reimbursable Trasury positions support activities undertaken generally under the TCA, rather than specific projects. Authority for the reimbursement of those positions is derived directly from the TCA, which, in turn, is authorized by Section 607(a). Authority for reimbursable positions supporting a specific project is also derived from the applicable project agreement.

In our view, Article I, §9, cl.8 of the U.S. Constitution does not have any direct application to the reimbursement issue. However, even if the provision were applicable, we believe that Section 607(a) of the Foreign Assistance Act grants Congressional consent sufficient to satisfy the requirements of Article I, §9, cl.8.

Inapplicability of Article I, §9, cl.8 to reimbursements

Article I, §9, cl.8 provides in part that:

> "...no Person holding any Office of Profit or Trust under [the United States], shall, without the consent of the Congress, accept any present, Emolument, Office, or Title, of any kind whatsoever, from any King, Prince, or foreign State."

24 Op. Atty. Gen. 116, 117 (1902) draws a clear distinction between gifts from foreign governments to U.S. Government employees and gifts to Government agencies. At issue were gifts given by a Prussian prince to the Navy Department, the Military Academy, the Naval Academy and to several military and civil offices of the United States.

The opinion states that,

> "...as the constitutional prohibition expressly and exclusively relates to official persons, it could not properly be extended, under the circumstances at all events, in my judgment, to a department of the Government and to government institutions." (emphasis in original)

Congress was mindful of this distinction when it enacted legislation permitting foreign governments to reimburse the United States for technical assistance.

> "Notwithstanding any other provision of law, officers and employees of the United States Government performing functions under this chapter shall not accept from any foreign country any compensation or other benefits. Arrangements may be made

---

Cross, and voluntary nonprofit relief agencies registered with and approved by the Agency for International Development (including foreign voluntary nonprofit relief agencies so registered and approved when no United States voluntary nonprofit relief agency is available). Such advances or reimbursements may be credited to the currently applicable appropriation, account, or fund of the agency concerned and shall be available for the purposes for which such appropriation, account, or fund is authorized to be used...".

> by the President with such countries for reimbursement to the United States Government or other sharing of the cost of performing such functions."(Section 625(h) of the Foreign Assistance Act of 1961, as amended, 22 U.S.C. 2385(h)) (emphasis added)

This clearly indicates that Congress drew a sharp distinction between the acceptance by an individual of compensation, directly from a foreign government -- which was forbidden -- and the reimbursement of the U.S. Government for costs (which would include the cost of salaries paid by the U.S. Government to its employees) -- which was explicitly permitted.

The legislative history of this language demonstrates that Congress was well aware of the requirements of Art. I, §9, cl. 8. Section 625(h) was taken from the 1958 amendments, P.L. 85-477, §517(e) to the Mutual Security Act of 1954, 22 U.S.C. §1787(e). As explained in Senate Report 1627, the purpose of this section was to withdraw congressional consent to the practice of allowing U.S. military officers serving as members of U.S. military missions to Latin American governments to accept compensation and other benefits directly from such governments. The report noted that a conflict of interest existed when the officers who were responsible, inter alia, for determining the amount and character of military assistance the United States should furnish to a foreign government received direct benefits from such government. The report contrasted reimbursements to the U.S Government and noted that although United States employees benefited indirectly from such reimbursement, such indirect arrangements did not create the same conflict of interest risks as direct payment:

> "... it is provided [in the amendment] that arrangements may be made by the President with other nations for reimbursement to the United States or for other sharing of the costs involved. This provision is designed to authorize bilateral arrangements under which other governments would share the cost involved in maintaining military or other mutual security missions.
>
> "It is expected that these cost-sharing arrangements will be modeled after those presently in effect with many countries receiving assistance. Foreign countries put agreed amounts of their currency at the disposal of the United States to meet housing, transportation, and other expenses, or they make contributions to the United States Government in kind to the same end. Thus, under the amendment, although a United States employee may benefit indirectly from the contribution of the foreign government, he will not do so directly."

Section 607(a) grants any necessary Congresional consent:

Assuming, arguendo, that Art. I, §9 cl. 8 does apply to the Saudi reimbursement of Treasury employees, Section 607(a) gives the requisite Congressional consent to such payments. Although a series of statutes authorizing United States servicemen to accept foreign medals, including 64 Stat. 106, contained explicit consents by Congress, we do not believe that this precise formulation is mandated by the Constitution. In enacting Section 607(a), Congress gave the President specific authority to furnish assistance on an advance-of-funds or reimbursable basis, consistent with and in furtherance of the purposes of the Foreign Assistance Act to friendly countries.

Section 607(a) states that such advances or reimbursements may be credited to the currently applicable appropriation, account or fund of the agency concerned. This section clearly contemplates that reimbursable assistance would be furnished to a number of countries by various U.S. Government agencies. Congress obviously did not consider it necessary to give explicit approval to each individual project or agreement so long as the conditions specified in Section 607(a) were met. Thus, the "express consent" cited in 64 Stat. 106 was given by Congress to the entire category of reimbursable projects approved by the President pursuant to Section 607(a).

This interpretation is supported by 40 Op. Atty. Gen. 513 (1947), which involved placing certain employees of the Weather Bureau on a leave-without-pay status and detailing them to serve as expert meteorologists for the Government of Eire. The employees would be paid directly by the Government of Eire, but they would retain United States citizenship and would not take any oath of allegiance to the Government of Eire. Legislative authority for this arrangement was the act of August 8, 1946, c. 911, 60 Stat. 944, which provided that:

> "In order to promote safety and efficiency in air navigation to the highest possible degree, the Chief of the Weather Bureau, under the direction of the Secretary of Commerce, shall, in addition to any other functions or duties pertaining to weather information for other purposes ... (4) establish and coordinate the international exchange of meteorological information required for the safety and efficiency of air navigation; (5) participate in the development of an international basic meteorological reporting network, including the establishment, operation, and maintenance of reporting stations on the high seas, in polar regions, and in foreign countries in cooperation with other governmental agencies of the United States and the meteorological services of foreign countries and with persons engaged in air commerce ..."

The Attorney General opined that the above statute contained Congressional consent sufficient to satisfy the requirements of Art. I, §9, cl. 8:

> "I concur in the conclusion of your Solicitor that the proposed arrangement is authorized by law and that there is no conflict with the constitutional provision. The act of August 8, 1946, plainly authorizes the detailing of the employees. It is silent on the question of compensation, although it must have been foreseen that questions relating thereto would arise. I think the required construction is that the Chief of the Weather Bureau, under the direction of the Secretary of Commerce, is left free to make appropriate arrangements with foreign governments respecting the payment, in whole or in part, of the compensation of employees detailed to cooperate with them. The constitutional provision was not intended to forbid, and by its terms does not forbid, the acceptance of compensation from a foreign government under an arrangement duly authorized by an act of the Congress." (emphasis added)

It should be noted that the above statute is much less specific than Section 607(a) of the Foreign Assistance Act, in that it makes no explicit reference to the detailing of employees or to their payment by a foreign government. Yet the Attorney General stated that the statute "duly authorized" such acceptance for the purpose of Art. I, §9, cl. 8.

Similarly, the Comptroller General held in 41 Comp. Gen. 715, 719 (1962), that Section 247 of the Armed Forces Reserve Act of 1952, 66 Stat. 495, 10 U.S.C. 1032, which provided that,

> "Subject to the approval of the Secretary concerned, a Reserve may accept civil employment with, and compensation therefor from, any foreign government or any concern that is wholly or partly controlled by a foreign government,"

met the Congressional consent standard required by Art. I, §9, cl. 8.

In conclusion, it is our view that the reimbursement to Treasury by the Government of Saudi Arabia of salaries which this Department has paid to certain of its employees is fully consistent with the letter and intent of the Constitution.

INTRODUCTION OF ASSOCIATES

Ms. BEEBE. I am remiss in not introducing the other members who are with me this morning. If I might, Donna Pope is Director, Bureau of the Mint; and Paul T. Taylor, Fiscal Assistant Secretary; Art Kallen is Director of our Office of Budget-and Program Analysis.

TRAVEL

Senator MATTINGLY. Other than the Secretary, how many people of the Treasury fly first class?

Ms. BEEBE. We have several categories where first class is used that I am aware of.

For example, we have individuals from time to time who have medical problems, and with appropriate documentation they may be allowed, under certain circumstances, to fly first class.

On occasion, where a trip has been unscheduled on an emergency nature, and other transportation may not be available, individuals will be authorized to fly first class. But, on the whole, we do not fly first class.

Senator MATTINGLY. You and Secretary Regan are doing an excellent job at the Treasury. Considering the large demands on the Department and the inflation factor, you are doing more with less, and I really congratulate you.

Ms. BEEBE. Thank you.

REPRESENTATION FUNDS

Senator MATTINGLY. Nevertheless, though, we need to keep in mind that 10 years ago you requested $13 million and today you are requesting $59 million for the operation.

I am concerned that the Secretary is severely restrained in the execution of his duties because of abnormally reduced representation funds.

Does the Secretary need more funding to carry out departmental reception type duties, or is it sufficient?

Ms. BEEBE. At the moment, we believe that we can live within the amount that we have requested. We have $80,000 for international representation and $15,000 for domestic representation. We do watch that very carefully and we believe it is adequate.

Senator MATTINGLY. How much of your international affairs request goes toward law enforcement activities?

Ms. BEEBE. Well, at the moment, under the salaries and expenses appropriation, we cover the cost of our Assistant Secretary and his immediate staff and some representation amounts. But, in general, the budget does not include funds for law enforcement.

LAW ENFORCEMENT FUNDING

Senator MATTINGLY. This committee, as you know, is very supportive of the Treasury's law enforcement functions.

We want increase in Interpol and Customs' cooperation funding. Do you have any comments along those lines?

Ms. BEEBE. Our present budget does not propose to increase that amount, but I believe that we would have sufficient funds within the amount requested to increase that activity without increasing our appropriations.

TREASURY SECURITIES

Senator MATTINGLY. In reference to savings bonds, what effect have the IRA's and similar thrift promotions had on the purchase of the Treasury security?

Ms. BEEBE. Mr. Chairman, I would have to ask Mr. Taylor to respond.

Mr. TAYLOR. Well, are you speaking now of Treasury securities, savings bonds, which particular area?

Senator MATTINGLY. I guess you could throw in there all savers and other types.

Mr. TAYLOR. We will provide you more precise answers for the record, but I would say, for instance, on bill sales and that type of thing, I do not think the impact has been very great. I think our volume in the Treasury bills, particularly of the public debt Treasury bill system, has held up fairly steady. We have very high volume right now and they have not fallen off that much. So I would say, by and large, that Treasury bill sales are holding up very well.

Savings bond sales, of course, have not and—savings bond sales have fallen off and redemptions have increased in the recent several years, but that is not necessarily due directly to the instrument that you stated. It is due generally, to the fact that it is not a competitive instrument, and we have submitted legislation to make the savings bond program more competitive in the market environment.

So we feel that savings bonds sales will pick up in the future. I think the interest now is up to 9 percent which is not all that bad compared to what it used to be, and compared to the market.

Ms. BEEBE. The volume of individuals purchasing Treasury bills has been increasing. Our public debt budget before you this morning does request increased funds in anticipation of the sale of savings bonds increasing with the new instrument.

[The information follows:]

EFFECT OF IRA'S AND OTHER THRIFT PROMOTIONS ON THE PURCHASE OF TREASURY SECURITIES

The institution of individual retirement accounts, all savers certificates and other market instruments over the past year has had no determinable effect on the sale of Treasury securities. Treasury bill accounts maintained at the Treasury have increased steadily from approximately 26,000 accounts in April 1978 to an all time high of 844,000 accounts as of April 1982, and we project a continued increase in Treasury bill sales.

Savings bond sales, however, have declined steadily since 1978 and are very low at present. Although the amount outstanding in savings bonds has declined much more slowly than the amounts outstanding in passbook accounts at banks and savings and loans for example, the amount outstanding in savings bonds is forecast to decline by less than 2 percent in fiscal year 1982 despite the continuing interest rate imbalance. Savings bond redemptions increased sharply in 1979 and 1980, but have returned to 1978 levels. We believe that the decline in the savings bond program is not directly relatable to the introduction of other thrift promotions, but instead, results from the fact that savings bonds no longer provide competitive interest rates to investors. The "gap" between market interest rates and savings bond rates expanded when interest rates increased sharply in 1978. Despite increases in the savings bond interest rate from 6 percent in 1978 to 9 percent at present, the savings bond rate is not competitive with current market interest rates. The Treasury Department has requested the legislation necessary to make the savings bond program more competitive in the market environment, and to maintain its competitive status despite increases in market interest rates. The Treasury has proposed to increase the rate paid on savings bonds held at least 5 years to an amount equal to 85 percent of the average Treasury 5-year market rate during the holding period. This proposal has been transmitted to the Ways and Means Committee for its consideration. The new savings instrument requested in the legislation will result in an increase in savings bond sales in the future, and a more stable savings bond program.

INDEXING

Senator MATTINGLY. Is there any consideration in Treasury for indexing long-range securities, market securities?

Mr. TAYLOR. Not to my knowledge.

Senator MATTINGLY. Do you think it would be a good idea?

Mr. TAYLOR. It has plusses and minuses.

But I think with the inflation coming down the indexing would not be as valid.

Senator MATTINGLY. What company's major supply of copper for pennies are made in the United States?

Ms. BEEBE. Olin.

Senator MATTINGLY. Olin Corp.

Do they sell the copper to the Treasury on low bid basis?

Ms. BEEBE. Low bid?

Senator MATTINGLY. Low bid.

Ms. BEEBE. I would assume they would have to.

Senator MATTINGLY. But not every agency has to?

Ms. POPE. Actually, Mr. Chairman, I think we should give you a more detailed answer for the record. But the mint actually buys the metal and then supplies it to the companies like Olin who then process it and sell us either the blanks or the strip metal.

Senator MATTINGLY. Could you, when you get that information for us, also tell us what the other major suppliers of copper are to the Treasury?

Ms. POPE. I will be happy to, Mr. Chairman.

[The information follows:]

Copper Purchases

We obtained copper from the following companies during fiscal years 1981 and 1982 (to date):

Company	Fiscal year 1981		Fiscal year 1982	
	Pounds	Amount	Pounds	Amount
Amax Copper	38,000,000	$33,085,000	3,500,000	$2,691,000
Cerro Sales	17,270,000	14,870,706	21,411,000	16,472,687
Brandies Goldschmidt	2,000,000	1,743,500		
Metal Traders	1,200,000	1,042,690		
ACLI Metals	3,000,000	2,644,500		
Diversified Metals	2,850,000	2,466,084		
Marc-Rich	1,100,000	977,900	6,000,000	4,564,875
C. Tennant & Sons	1,610,000	1,425,677		
Yancey Minerals [1]	2,000,000	1,748,000	1,000,000	790,000
Ore & Chemical Co	1,000,000	865,875		
Continental Grain	1,870,000	1,626,315		
Transworld Metals	1,100,000	946,770		
Philip Brothers	17,000,000	13,497,900	9,500,000	7,233,750
Gerald Metals			3,250,000	2,476,325
Commercial Metal			300,000	226,080
Primary Industries			750,000	570,125
Total	90,000,000	76,940,917	45,711,000	35,024,842

[1] Yancey Minerals is an 8A (minority) contractor with whom we negotiated a contract on a sole source basis. All other contracts were formally advertised on a competitive basis.

Fabrication of Coinage Strip

The mint contracts with Olin only for the fabrication of coinage strip. The schedule below reflects the materials that were fabricated into coinage strip in fiscal years 1981 and 1982 to date by the Olin Corp.

	Fiscal year 1981		Fiscal year 1982 (to date)	
	Pounds	Total cost	Pounds	Total cost
Bronze	51,110,000	$10,192,184	23,400,000	$4,029,000
Cupro-nickel	9,360,000	3,333,208		
Clad	18,237,200	8,995,569	21,228,600	11,582,385
Total	78,707,200	22,520,961	44,628,600	15,611,385

FEE INCREASES

Senator MATTINGLY. Getting back to what you always come back to, public debt, for a moment.

The Treasury pays out agent fees and reimburses the Federal Reserve Bank for conducting debt transactions.

For fiscal year 1983, have you anticipated the fee increases?

Mr. TAYLOR. You mean the increased fees? We have already instituted some increased fees a couple of years ago.

Are you speaking of increased amounts because of an increase in volume?

Senator MATTINGLY. Yes.

Ms. BEEBE. We are proposing a $4.2 million increase in the total amount to go to the Fed, but primarily that assumes the same rate of payment and it is based on increased volume.

Senator MATTINGLY. One final question.

Is the Treasury—this is encompassing—looking at the status of the FFB, the Federal Financing Bank, and observing any of its original functions of whether it was—it started operation in 1974, what has happened to it since that period of time, and how it is sort of—the original concept has been sort of circumvented and doing operation that it was not intended to do, and have you made any proposals or observations or recommendations about it?

Ms. BEEBE. The Comptroller of the Currency has been, or is in the process of analyzing its relationship to that organization and its functions, and how it, in turn, relates to the Fed. Over the next year or so, they will be developing a series of concept papers which, among other things, will examine the relationship between these institutions and ways of streamlining and changing their functions or combining them, if that is an appropriate alternative.

Senator MATTINGLY. The FFB, I think in 1981, loaned something like $21 million off budget, which has sort of swollen through the years. I just wonder if the Comptroller of the Currency is going to take 1 or 2 years to do a study. We might want somebody else to look at a study of the FFB.

I think you should take the observation back to the Secretary. It is conceivable that we need to have more of an immediate answer before looking at all the agencies.

Ms. BEEBE. We will be happy to put that on the agenda for discussions with the Secretary.

Senator MATTINGLY. I would appreciate it if you would, because I think he and I think as most do, pretty much alike.

Mr. TAYLOR. We will also include, of course, something that indicates that what we feel the factors of the fund——

Senator MATTINGLY. I think the scope and concept of the FFB——

Mr. TAYLOR. Why we instituted it.

Senator MATTINGLY. I do not need it and neither does anybody else in Congress. I think everybody else understands it. It is what has happened to it and what has happened to it since. It is why it happened, the uses that it was originally intended for. If we would just meet those, we would not have loaned out $21 million in fiscal year 1981. We want to know why it is expanding and why the Treasury is, in fact, the lender, which it is, to the FFB. Why it does not have more enforcement of its own policies without doing a study.

ADDITIONAL COMMITTEE QUESTIONS

Ms. **Beebe**. We will get that back to you.

[The following questions were not asked at the hearing but were submitted to the Department for response subsequent to the hearing:]

ADDITIONAL COMMITTEE QUESTIONS

Question. Is the Treasury looking at the status of the Federal Financing Bank (FFB).

Answer. The administration stated in the supporting documentation for its fiscal year 1983 budget submission that it will review the budget treatment and portfolio oversight of the FFB in the context of its larger effort to achieve better control of Federal credit programs. The Cabinet Council on Economic Affairs, chaired by Secretary Regan, has established a Federal Credit Policy Working Group to study the FFB's role and performance. The Group is expected to make its findings and recommendations later this spring.

Question. Has the Federal Financing Bank effectively performed the functions established for it by the Congress?

Answer. The FFB was established to assure coordination of Federal and federally-assisted borrowing programs with overall fiscal and debt management policies, to reduce the costs of these borrowings from the public and to assure that such borrowings are financed in a manner least disruptive to private financial markets and institutions. Section 6(a) of the Federal Financing Bank Act of 1973 authorized the FFB to purchase any obligation which is issued, sold or guaranteed by a Federal agency. We believe that the FFB has used this authority in a manner consistent with its statute to effectively achieve its statutory purposes.

Question. How do you explain the explosive growth of the Federal Financing Bank in recent years?

Answer. The FFB's recent high growth rate can be directly attributed to the rapid growth in many of the programs financed by the FFB. Section 18 of the Federal Financing Bank Act of 1973 is quite explicit in limiting the FFB's power to purchase obligations. It states, in relevant part: "Nothing in this act shall be construed as authorizing an increase in the amounts of obligations issued, sold or guaranteed by any Federal agency . . .".

The FFB does not have, and was never intended to have the power to impose any limits or controls on individual credit programs. Only the Congress can set activity levels for the programs. This is why we think a comprehensive and binding credit budget is so important. It allows Congress the flexibility to focus on individual credit program levels, while at the same time, setting an appropriate aggregate level of Federal credit to the supplied in a given fiscal year.

SOCIAL SECURITY

Senator **Mattingly**. You do not have money in your budget. You could put that down while you are recording.

I want to thank you for your appearance today, and that was just a little special interest of my own there. I asked you about the FFB. But I think it is of interest to everybody in the Senate.

When would you run out of money to mail out social security checks, by the way?

Ms. **Beebe**. The end of May. The June payments would not be mailed.

Senator MATTINGLY. The end of May?

Ms. BEEBE. That is correct. And it is not only that we run out of money to mail the social security checks. We have run out of money to keep that bureau in operation. We would shut down the bureau.

Senator MATTINGLY. Maybe you can send them out in franking envelopes.

Ms. BEEBE. We would be pleased to have you do so.

It is, if I might just digress and spend a moment, that this is a matter of serious import to us.

Our revised budget for fiscal year 1982 did include appropriation language to enable the social security trust fund to reimburse the operative accounts of Treasury for that amount. And the reason we have done this is that we were caught this year with a number of things happening.

First of all, we had two postal rate changes which were unanticipated. And, second, the number of social security checks to be mailed was greater than the estimate that we were provided a year ago when we prepared our budget. And as you may know, the budget for this bureau is very inflexible. Eighty-four percent of it is for such things as postage, Fed payments, and payments to commercial depositaries. Very little of the amount is truly flexible. For example, we could put off purchasing stocks of checks or equipment and so forth, but in total we have less than 16 percent flexibility in that budget.

So there was no way we could adjust to these unanticipated increases.

Senator MATTINGLY. Would you please furnish for the committee the trip records for the Under Secretary, Deputy Secretary, and the Assistant Secretary, so that we will have it for the record?

Ms. BEEBE. We have prepared that for the committee and can supply it to you.

Senator MATTINGLY. And would you submit for the record the statements of all your colleagues also today?

Ms. BEEBE. I will be happy to.

DEBT CEILING

Senator MATTINGLY. Let me ask you one other question.

When will the Government run out of money on the debt ceiling?

Ms. BEEBE. Our best estimate at this time is the end of May.

Senator MATTINGLY. Well, then let me ask you another question.

I read the other day where it will be postponed until August. Did you see anything about that? It is still the end of May?

Ms. BEEBE. As of Friday, our best estimate still was the end of May.

Senator MATTINGLY. End of May.

That was this past Friday. Where did they get—this is for my own information, this is not for the record——

[Discussion off the record.]

Senator MATTINGLY. I am trying to help you and make sure that we cut back here so you do not have to borrow as much. Sometimes it gets to be a lonely battle, but we are doing better than we were a few years ago.

Mr. TAYLOR. You recognize the borrowing only follows the authorization to spend.

Senator MATTINGLY. Right. I think that is the comment I had about the FFB, that concerns me, that the American public knows how much money they are borrowing off budget. If you could put that all together.

I assume that you borrowed that money also?

Mr. TAYLOR. We borrow to cover on both budgets, that is right.

ADDITIONAL COMMITTEE QUESTIONS

Senator MATTINGLY. And Senator DeConcini, who could not be here today, said he would have some questions to be answered for the record also.

[The following questions were not asked at the hearing but were submitted to the Agency for response subsequent to the hearing.]

QUESTIONS SUBMITTED BY SENATOR DENNIS DECONCINI

SALARIES AND EXPENSES

Bureau of the Mint

Question: You are requesting an increase of $1,838,000 for restoration of the FY 1982 reduction imposed by the Continuing Resolution. This restoration would be applied to "manufacture of coins (domestic)". What would be the effect on your operations if this restoration were denied?

Answer: The increase of $1.838 million is the restoration at a reduced level of one-time savings being accomplished in FY 1982 through the temporary closing of the Philadelphia Coinage Strip Facility.

The third and fourth Continuing Resolutions provided an additional 4% reduction below the President's September request. This coupled with delays in the closing of the New York Assay Office caused us to take additional measures which included the temporary closing of the Philadelphia Coinage Strip Operations. Since the primary mission of the Mint is the production of coins, the temporary closing of the coinage strip operation was an area whereby the coinage mission would not be affected. By temporary closing the strip operation, we were able to transfer those employees to coin production thereby allowing us to reduce overtime expenditures as well.

If the $1.838 million were not restored in FY 1983, the Mint could not start up the in-house strip operation at Philadelphia that was discontinued in FY 1982 due to budget reductions.

The Mint manufactures coinage strip to augment the supply from private contractors. The Philadelphia Mint provides competition to the only private sector supplier that we presently have for cupro-nickel and cupro-nickel clad coinage strip.

Without the Philadelphia Mint strip operations, the Mint would be totally dependent at the present time on one commercial supplier for clad coinage strip, and vulnerable to possible higher private contractor prices. In addition, possible strikes or other interruptions of our strip supply by outside forces could occur.

EXPANSION AND IMPROVEMENTS

Question: You are requesting $5.2 million for Expansion and Improvements to various Mint facilities in FY 1983 -- up $1.2 million over current levels.

-- How much of this would go for the Denver Mint project?

-- Is this project now authorized by the Congress? And, if so, what is the "additional authorizing legislation to be proposed?

Answer: The Expansion/Improvement amount for Fiscal Year 1982 was $3.969 million as approved in the fourth Continuing Resolution. The Fiscal Year 1983 request of $5.2 million (an increase of $1.231 million) is part of the Mint's continuing program to improve material flow, optimize utilization of available space and provide healthier and safer working conditions for Mint employees. This request will allow site modifications at the San Francisco Assay Office and continued modifications at the Denver Mint. Major equipment acquisitions are planned for the Denver and Philadelphia Mints which include stamping presses, conveyor systems, automated coin lines, sound enclosures and other related coinage equipment.

A breakdown of the $5.2 million requested in the FY 1983 budget is as follows:

Facility	Amount
Denver Mint	$ 2,796,713
Philadelphia Mint	2,005,487
San Francisco Assay Office	397,800
Total	$ 5,200,000

Authorizing legislation for the Expansion and Improvement Program has cleared the Department of the Treasury and the Office of Management and Budget. Deputy Secretary (Treasury) McNamar signed the transmittal letter to Congress for the proposed legislation on April 22, 1982.

Office of the Secretary

QUESTION: You indicate that $2.2 million of the $6.8 million net increase for the Office of the Secretary would go "to restore funding to the budget base that has been excluded in FY 1982 because of the limitations of the Continuing Resolution". Another part of the increase would go for various pay adjustments ($3.1 million). That leaves $1.5 million for unspecified increases next year.

What is the $1.5 million piece of your total $6.8 million increase going for?

ANSWER: The actual increase specified in the question is for $1.9 million with an offset of $426 thousand for program reductions. The increase itself is for inflation on general operating costs.

These inflationary increases are most pronounced for items such as utilities, telecommunications services, travel (particularly international travel), data processing costs, and general overseas operating expenses. Other increases are requested for printing, equipment repair and maintenance, building maintenance costs, ADP and periodical subscriptions, equipment rental, space rental charges, and employee within-grade promotions.

A complete list of the requested increases (pages OS-4 and OS-5 of our budget justification material) is attached.

QUESTION: What specific measures would you be forced to take if we were to deny all but your pay adjustment increase of $3.1 million?

ANSWER: Excluding the amounts requested for the pay adjustment the balance of our request will be directed toward a partial restoration of 1982 budget cuts and for offsetting the effects of inflation. Most of these increases will be applied toward non-personnel expenditures.

In order to meet the 1982 budget reductions within the short time frame that was allowed it was necessary to target most cutbacks against non-personnel expenditures such as travel, training, equipment, research contracts, data processing, and so on. Those expenditures were cut back to very austere levels, and it is doubtful if we could continue to function adequately for an indefinite period at these minimal levels.

Prudent management dictates that the reductions taken during 1982 should not be continued in their entirety in 1983 and beyond. The disruptive effect they will have on basic programs (research, tax analysis, international economic programs, and so on) will, beyond the short term, outweigh the dollar savings achieved. However, if the reductions were continued, as the question proposes, the severe cuts would be complicated by the fact that inflation on the remaining operations would further erode the budget base. There would be no alternative but to divert funding from employee salaries and apply it to the needs addressed in the increase request since the non-personnel expenditures have little if any further capacity for reductions. This move would have very serious consequences for the Office of the Secretary. In order to achieve salary savings of over $4 million it would be necessary to undertake a reduction-in-force of at least 200 employees, or 17 percent of the proposed average employment strength in 1983. This would have a highly disruptive effect on all program operations, including the critical tax analysis and tax legislation units, international economic programs and government financing operations.

QUESTION: What specific program reduction ($426,000) will you be able to make in 1983 to partially offset the expected increase for pay adjustments and 1982 restorations?

ANSWER: As a result of attrition and overhead savings to be realized through the merger of the Salaries and Expenses and International Affairs appropriations, we expect to be able to eliminate 15 average positions and the salaries and associated costs. No specific program is being reduced; rather, by improvements in the overall management of the organization, we expect to be able to reduce the need for this level of staffing resources by 1983.

TRAINING

QUESTION: What is the Office of the Secretary's 1983 training budget and how does it compare with 1982?

ANSWER: The following table shows the comparison of actual and proposed employee training allocations within the Office of the Secretary from 1981 to 1983:

1981 Actual	1982 Estimate	1983 Estimate
$152,000	$ 67,000	$ 89,000

As the table indicates, is was necessary to reduce the level of funds allocated for employee training by 56 percent between 1981 and 1982 due to the limitations of the continuing resolutions. The proposed allocation for 1983, while $22,000 higher than the level for 1982, is still over 41 percent lower than the 1981 level in nominal terms and even lower if one considers the effects of inflation between 1981 and 1983.

With a proposed average staffing level of 1,151 for 1983, the allocation contained within our budget amounts to an average of $77 per person. By comparison a recent study done for an association of assistant secretaries for management indicated that Government-wide training expenses per employee are approximately $204, while private companies such as General Electric and A.T.&T. provide as much as $800 to $1,100 per employee for training.

INTERNATIONAL AFFAIRS

QUESTION: Your International Affairs budget for 1983 jumps by over 15 percent -- from $11.986 million to $13.835 million -- despite a drop of five positions.

Why do you need a 15 percent increase in International Affairs next year?

ANSWER: Within the Office of the Secretary the International Affairs programs were one of the activities most severely affected by the initial 1982 budget reductions and the subsequent action under the continuing resolution. As the following table shows, this area sustained a reduction of 19% between 1981 and 1982.

1981 Actual	1982 Estimate	1983 Estimate
$14,781,000	$11,986,000	$13,835,000

The increased level proposed for 1983 is still a reduction of 6 percent in nominal dollars from the 1981 level, and even more of a reduction when one considers the effects of inflation between 1981 and 1983. The level proposed for 1983 is still a significant reduction from 1981 spending levels, but it does propose restoration of a number of important types of expenditures without which the work of this organization would suffer serious disruption.

QUESTION: What would be the effect if we held the International Affairs budget at the current fiscal 1982 level?

ANSWER: Holding the 1983 budget at 1982 levels would require that we implement most or all of the following types of actions, depending on the severity of inflation in 1983:

- -- Continued freeze on employment and continued attrition of highly qualified staff;
- -- Strong potential for significant reductions in force;
- -- Continued limitations on employee training and promotions;
- -- Further cutbacks in travel related to important international economic matters;
- -- Continued severe restrictions on research and data processing;
- -- Probable need to recall one or more U.S. financial attaches stationed at embassies overseas.

QUESTION: By merging the International Affairs activity into one office of the Secretary account, you say that it will provide you with much greater flexibility in using resources available to their greatest effect and in simplifying operations in general.

Isn't this a way to circumvent the Committee's reprogramming restrictions or isn't it just another way to merge another $13.8 million into a pot with less strings attached?

ANSWER: The proposal to merge the Salaries and Expenses and International Affairs accounts was conceived solely as a means to increase the efficient use of funds and to eliminate confusion in financial planning and control.

The prior appropriation structure did not permit reprogramming of funds between the appropriations, even though they funded a single, integrated organization. The only mechanism that existed previously to move funds between these accounts was a formal budget amendment approved by both houses of Congress. Because of the complicated mechanics of that process such a budget amendment was never attempted. This merger will permit us to seek the more simplified reprogramming authorization from Congress. It does not circumvent the reprogramming process but rather opens it up for potential use for the first time.

QUESTION: What safeguards have you established that would keep International Affairs activities from dipping into, say Departmental Policy and Administrative Services, or vice versa?

ANSWER: Unless otherwise adjusted by the Congress, the proposed distribution of funds by object class and budget activity that appears in the budget justification document is regarded as a reflection of Congressional intent upon approval of that budget. Movement of funds between budget activities, such as that suggested above, would constitute a reprogramming action and would require prior Congressional approval. Internal Treasury Directives and written agreements between the Secretary of the Treasury and the appropriation subcommittees specify that approval must be received from the subcommittees if the proposed reprogramming exceeds 5 percent or $250,000 (whichever is greater) variation from the initial funding distribution presented to and approved by the Congress.

DEPARTMENTAL STUDIES

QUESTION: Last year you requested $980 thousand to conduct Departmental studies. You discussed a few of those with Chairman Abdnor but indicated that a detailed analysis of your proposed study plan would be submitted to the Committee when completed.

What is the status of that plan?

ANSWER: Because of the funding restrictions contained in the continuing resolutions for 1982 it was necessary to forego these studies. In meeting the funding cuts it was necessary to severely restrict existing program operations. Conducting these studies at the originally estimated cost would have required corresponding reductions to basic programs over and above the reductions already implemented. This would have resulted in significant reductions in force. The loss in productive capacity that this would have caused for the Office of the Secretary far outweighed any productivity gains that could have been achieved as a result of these studies.

QUESTION: What is your 1983 request for Departmental studies?

ANSWER: In an effort to keep the 1983 funding level as low as possible we have not included any request for funds for such studies in the budget.

OBJECT CLASS

QUESTION: Your justifications fail to show an object class breakdown of the Office of the Secretary budget request.

Why, and could you provide one for the record?

ANSWER: The object classification schedule appears on page OS-7 of the budget justification material. A copy of this material is attached for the record.

INSPECTOR GENERAL

QUESTION: Last year you requestd $939,000 and 22 permanent positions for the Office of Inspector General.

What is your 1983 request for the Office of Inspector General?

ANSWER: The Office of the Inspector General FY 1983 budget request consists of $1,165,000 and 27 average positions. This request includes the merger of the International Affairs and the Salaries and Expenses appropriations. The Inspector General request appears on page OS-1 of the budget justification material.

TRAVEL

QUESTION: What is your travel request for FY 1983?

ANSWER: The Office of the Secretary travel budget request for FY 1983 is $1,475,000. This is an increase of $300,000 over the fiscal year 1982 level; however, because of budget cuts in 1982 we were forced to severely cut back on Secretarial and staff travel. The amount requested for fiscal year 1983 represents a 15 percent annual inflationary increase above the actual 1981 levels.

REPRESENTATION

QUESTION: Why do you need a representation allowance of $95,000? I know you have merged your International Affairs representation allowance into your Office of the Secretary account, but what would be the effect on your operations if we were to cut this in half next year? Be specific.

ANSWER: For FY 1983 the Office of the Secretary is requesting a total of $95,000 for representation expenses. This amount includes the total levels approved in prior years for the Salaries and Expenses account ($15,000) and the International Affairs account($80,000). The domestic portion of this allowance provides for official reception and representation expenses for the entire Treasury Department. The amount requested is a ceiling on expenditures; if not needed for the performance of official functions the funds will not be used. Inflation notwithstanding, the total allocation sought for official representation has not increased since 1979.

The principal use of these funds is for hosting international meetings. For example, 1981 expenses included:

> Approximately $20,000 was used by Treasury financial attaches stationed at embassies overseas. The average allocation to each post was less than $1,500. With less than $30 per week on average, these attaches were expected to conduct working luncheons and dinners with their counterparts in foreign finance ministries and with the local financial communities, and to hold receptions to introduce new staff members to those foreign officials.

> In 1981 the United States hosted the annual meeting of the Asian Development Bank. At this event, the Secretary was expected to host a luncheon for the delegation members. This luncheon was attended by nearly 1,000 persons from 43 countries. Over 30

ministerial rank officials attended. The per capita cost was under $30.

> The Treasury and the Federal Reserve jointly hosted a reception for the annual meeting of the International Monetary Fund/World Bank. It is estimated that 5,000 persons from over 140 foreign delegations attended that event. Treasury's expenses were approximately $30,000.

> Other meetings of the U.S.-Saudi Arabian Joint Economic Commission and the Inter-American Center of Tax Administrators were also hosted using these funds.

> The balance of these funds was used for meetings and working luncheons hosted by the Secretary and other senior officials for their foreign counterparts.

Since the greatest percentage of these funds are used to represent the United States in its official dealings with foreign governments, much the same as comparable funding at the State Department, any reduction of the authorized limit would directly affect the prestige of the United States in its dealings with these important international financial organizations. Clearly, a reduction of the amount mentioned would dictate that we cease providing one or more of these official receptions.

REPAIRS AND IMPROVEMENTS PROGRAM

QUESTION: You are requesting no funding for repairs and improvements in 1983 and haven't had an R&I appropriation since FY 1981. Yet you indicated in last year's hearings that $920,000 was needed for repairs and improvements to Main Treasury and said that postponement of these projects would jeopardize safety and increase costs. What is the latest price tag on repairing Main Treasury?

ANSWER: It is not entirely correct to say that we have had no funding for repairs and improvements to the Main Treasury Building since 1979. Funds appropriated for these projects are "no year funds"; that is, the budget authority does not lapse at the end of a fiscal year but rather remains available until expended. Because of the necessity of contracting most of this work through GSA and because of the need to implement these projects without closing down major sections of the building, we have experienced a backlog of work on previously approved projects. It is our feeling that there is no point to seeking a 1983 repairs and improvements appropriation since there is very little likelihood that we could commence with the work during that fiscal year. Our failure to ask for additional funds is not a reflection of the lack of need but rather a recognition of the logistical difficulty of being able to conduct the work.

With regard to the "price tag" for repairing the Main Treasury Building, it must be kept in mind that the building is an historical landmark dating from 1840-1860 and that it is also a densely used office building. Keeping the building in a state of repair that maintains both of these important functions is an on-going process and there is no fixed amount that can be identified as the correct or final amount needed. We fully expect that appropriation requests for repairs to this structure will be a permanent feature of the Treasury budget as long as the building is in use.

RESEARCH CONTRACTS

QUESTION: How much is requested in your 1983 budget for contracts for research? How does this figure compare to 1982 and 1981? What specific research projects are you currently funding and what projects do you have planned for 1983?

ANSWER: Performance of basic tax and economic research supportive of high level policy making functions is an important activity carried out within the Office of the Secretary. Much of this work is of a continuing nature. Other research levels will fluctuate depending on the policy needs of senior officials. Thus, while we do budget certain amounts for research the allocations are kept sufficiently flexible to meet evolving needs. In addition, the distinction between strict private source research projects, data processing/research projects, and data base development supportive of in-house and external research is not often easy to identify. In general, the funding levels proposed for these activities is as follows:

FY 1981	FY 1982	FY 1983
$599,000	$165,100	$565,000

In fiscal year 1982 we are involved in the following projects:

-- A study and report on an econometric model incorporating future policy expectations;

-- A review and critique of two previous studies concerning the consolidation of the various Federal financial regulatory agencies;

-- Research associated with the activities and final report of the Gold Commission (initiated in fiscal year 1981);

-- Feasibility study for development of a management information system;

-- General development of econometric models used for various types of forecasting;

-- Recommendation on the integration and implementation of a payroll/personnel information system and other administrative systems;

-- General data processing support for in-house monetary research;

-- Development of information cataloging systems.

-- Continuation of developmental work on a general equilibrium model of the U.S. economy that will help in analysing the effect of tax policy changes on resource allocations throughout the economy;

-- Studies on the impact of savings and investment incentives on investment spending, savings and economic growth (as a follow up to the recent tax law changes);

-- A study of the distributional implications of tax law changes that will examine asset ownership, consumption patterns and savings behavior by income class and age;

-- A study of the effects of the windfall profits tax on oil company investment (performed as a complement to prior in-house research efforts).

Research efforts for 1983 will continue along the same general lines with new efforts determined by evolving policy needs.

Savings Bonds Division

Question: Although you are cutting your Savings Bonds Division sales force by 50 slots in fiscal 1983, I still believe that further savings can be made in this area. Your funding for the sales activity actually increases slightly over 1982 despite these personnel cutbacks (up $87,000 over 1982).

Answer: The appearance of an increase in funding for personnel compensation while reflecting a reduction of 50 average positions for the Savings Bonds Division is misleading due to the fact that the FY 1982 pay increase was included in the FY 1983 estimate but not included in the FY 1982 estimate. A request for a supplemental of $580,000 for the FY 1982 pay raise was not included in the original submission but was submitted at a later date. The inclusion of the pay supplemental in the FY 1982 estimate would show a reduction of $333,000 in FY 1983 compared to FY 1982.

Question: Why couldn't you double your advertising and promotion budget to focus resources on the payroll savings plan where you have the biggest payoff, and cut your sales budget by 40-50 percent in 1983?

Answer: Advertising in the promotion of Savings Bonds has a two-fold purpose. It is designed to provide information about the product and the program and information about the way in which Savings Bonds build personal savings. It provides background and familiarizes the public with the product but by itself does not effectively sell Savings Bonds.

An analysis of the effectiveness of Savings Bond sales promotion conducted several years ago showed a definite relationship between the amount of promotional effort put forth by the sales staff on companies with payroll savings plans and the actual dollar sales of Bonds to employees of these companies. In sum it showed that sales results in dollars were eight times greater in companies where a high degree of sales effort was expended by staff as opposed to those companies in which little or no effort was made to promote Bonds.

An increase of expenditure on advertising at the expense of the sales budget would be counterproductive. While the advertising budget of the Division is relatively small, it has been very effective because most of the advertising is donated. The creation of Savings Bonds advertising is conducted under the auspices of the Advertising Council by volunteer advertising agencies. Nearly $77 million a year of free advertising has been donated annually over the past years according to Ad Council estimates.

The sales promotion staff of the Division has already been reduced to an austere level and further reductions would have a very adverse impact particularly in view of impending legislation to make Savings Bonds more attractive and competitive.

Upon approval of the proposed legislation, it will be essential to promptly and fully inform the public of the new interest terms in order to gain full advantage of the improved rates. This will necessitate personal contacts with organizations with payroll savings plans and a promotional effort to encourage those who have not yet adopted the program.

Question: Are there any studies within Treasury that indicate your direct, hands-on sales team is really making a significant difference in your payroll savings plan sale of Bonds? If so, please tell us about them in detail for the record.

Answer: Over the years a number of studies on this subject have been made. The two most recent are "Savings Bonds Promotion: An Effectiveness Analysis" and "A Study Prepared For The Committee On Ways and Means, U. S. House of Representatives" made by the Department of the Treasury in January, 1981. Both of these show that Savings Bonds have been an effective and much less costly means of financing than Treasury marketable securities.

The "Effectiveness Analysis" demonstrated that consistent, determined promotional effort is related to high dollar sales per employee and high company participation rates in a selected group of companies for which data were available.

The study for the Ways and Means Committee made a cost effectiveness comparison of Savings Bonds, expressed in interest rate equivalents to the interest rate on Treasury marketable notes. Treasury notes were used for comparison because their maturities range between 1 and 10 years and the average life of a dollar borrowed through Savings Bonds is about 8 years. This analysis showed that only 0.4 percent of the cost of the Savings Bond Program went for promotional costs. The remaining costs went for interest, agents fees, Federal Reserve Bank reimbursements, and administrative costs.

The average rate cost equivalent of the Savings Bonds Program which includes all costs in FY 1980 was 5.61 percent. The average Treasury note interest rate during the same period was 9.44 percent. Any debt not funded by Savings Bonds must be funded by Treasury marketable securities at considerably higher costs. In 1980 this amounted to five percentage points less cost for Savings Bonds than for marketables and resulted in over $3 billion in savings to the Treasury in debt service costs.

Since its inception in 1941, the Savings Bond Program has sold $220.7 billion of Savings Bonds at issue price. This represents a substantial portion of the public debt funded at a cost beneficial to the Government and at the same time encouraging thrift and helping to curtail inflation. Sales of this volume would not have been accomplished without an effective promotional effort.

Bureau of the Public Debt

Question: You indicate that you will be able to save $1,293,000 in fiscal 1983 due to "program reductions." What specific program reductions have you been able to identify for 1983? They appear to be in the area of promotion of the sale of savings type securities, but your justifications are not specific.

Answer: The reduction of $1,293,000 in fiscal 1983 applies to the U. S. Savings Bonds Division. It represents the elimination of 70 average positions at a savings of $1,287,000 in salaries and benefits and a net savings of $6,000 in rental of space due to the closing of field offices and consolidation of current space.

Question:

BUREAU OF PUBLIC DEBT: RESTORATION OF PAYING AGENT FEE SCHEDULE

Your biggest program increase in fiscal 1983 would be a $7.816 million add-on to restore paying agent fee schedule implemented in fiscal 1981. This goes to pay banks a fee for redeeming securities.

What would be the result if we were to deny this increase or give you only part of it in fiscal 1983? Give us the best detail you have, including a best and worst case scenario.

Answer: The result of denying or partially funding the increase requested to restore the paying agent schedule implemented in fiscal 1981 is dependent upon the savings bond sales and redemption levels experienced in fiscal 1983. Under a best case scenario, the workload increases projected would not materialize or would be substantially smaller and the Bureau would be able to maintain the fee schedule implemented in fiscal 1981. Under a worst case scenario, the Bureau would experience the workload increases projected and would be forced to request supplemental funding. If that additional funding was not forthcoming, the Bureau would be compelled to reduce the fees paid to its agents. This practice would result in the loss of some of the 44,000 agents in our agent network and would impair the Treasury's ability to market the new, more competitive savings bond instrument which is expected to strengthen and stablize the savings bond program.

Question:

BUREAU OF PUBLIC DEBT: HOLD FUNDING AT 1982 LEVELS

There is a strong possibility that FY 1983 budgets will be frozen at fiscal 1982 levels in most discretionary activities. If that were to be implemented by the Committee, you would be held at your current fiscal 1982 level of $176,640,000, with the possible add-on of pay supplementals.

What specific effects would such a freeze have on Bureau of Public Debt programs and activities in fiscal year 1983? Be specific and identify for us for the record which of your programs you consider to be nondiscretionary vs. discretionary?

Answer: The Bureau is responsible for administering the laws and regulations pertaining to public debt financing and operations within the framework of policies established by the Secretary of the Treasury. Our workload is determined by Treasury financing necessary to fund Federal programs and operations and to refund debt outstanding. The size of the workload is dictated by the size, frequency and extent of public participation in Treasury offerings. We must issue, service and redeem the securities which are the tangible results of those offerings. As such, we do not consider any of our programs to be discretionary.

Only 32 percent of the Bureau's appropriation request is allocated to Bureau operations. The balance is for operation of the Savings Bonds Division (7 percent) and for reimbursements and fee payments to other agencies which perform services for the Bureau. These include the Federal Reserve Banks, which act as fiscal agents for the Treasury, financial institutions and others which act as issuing and paying agents providing a nationwide network of outlets for selling and redeeming savings bonds, and the Postal Service. Our budget for these activities is based on anticipated workloads to be processed for the Bureau.

If required to operate during fiscal 1983 with the current fiscal 1982 level funding of $176,640,000 plus pay supplemental, despite projected workload increases, the Bureau would be forced to reduce payments to its issuing or paying agents. The payment of fees to agents is a contractual agreement on the part of the Treasury. The effect of reduced agent fees would be attrition in the agent network which sells and redeems savings bonds, and resultant damage to an already weakened savings bond program. With a weakened agent network it would be difficult, if not impossible to market the more competitive savings bonds instrument which we expect to introduce in the near future.

SUBCOMMITTEE RECESS

Senator MATTINGLY. Listen, I appreciate you all coming today and having somebody from the executive branch to report, and glad that your budget is less in fiscal year 1983 than it was in fiscal year 1982. It will be interesting to look to see how you did it.

I appreciate your doing it that way, and right now we are going to stand in recess until 2 p.m., to hear from the Treasury Law Enforcement Agency.

Thank you all.

[Whereupon, at 10:27 a.m., the subcommittee was recessed to reconvene at 2 p.m., the same day.]

(AFTERNOON SESSION 2:04 P.M., MONDAY, APRIL 26, 1982)

DEPARTMENT OF THE TREASURY

U.S. CUSTOMS SERVICE

STATEMENT OF JOHN M. WALKER, JR., ASSISTANT SECRETARY, TREASURY DEPARTMENT, (ENFORCEMENT AND OPERATIONS)

ACCOMPANIED BY:

WILLIAM von RAAB, COMMISSIONER OF CUSTOMS

ALFRED R. De ANGELUS, ASSISTANT COMMISSIONER (COMMERCIAL OPERATIONS)

GEORGE C. CORCORAN, JR., ASSISTANT COMMISSIONER (BORDER OPERATIONS)

CORA P. BEEBE, ASSISTANT SECRETARY (ADMINISTRATION)

ARTHUR D. KALLEN, DIRECTOR, OFFICE OF BUDGET AND PROGRAM ANALYSIS, DEPARTMENT OF TREASURY

BUDGET REQUEST

Senator ABDNOR [presiding]. The subcommittee will come to order.

This afternoon we will hear testimony from the Law Enforcement Division of the Treasury Department. The Godfather of the Treasury Law Enforcement is the Hon. John Walker, who will be our first witness.

John, it is always an honor and privilege to have you appear before us, and we accord you a cordial welcome to the committee, and you may proceed at your own pleasure. Possibly you may want to introduce the panel that wiil be appearing with you.

OPENING REMARKS OF MR. WALKER

Mr. WALKER. Thank you very much, Mr. Chairman.

As usual, it is a distinct pleasure for myself and for other representatives of the Treasury Department to appear before this committee.

With me today are the Commissioner of Customs, William von Raab, on my right; and his key associates; Al De Angelus and George Corcoran, who are Assistant Commissioners of the U.S. Customs Service.

On my left is Cora Beebe, Assistant Secretary for Administration of the Treasury; and Arthur D. Kallen, Director of the Office of Budget and Program Analysis of the Department.

Mr. Chairman, the fiscal year 1983 request for the U.S. Customs Service is $530,524,000 and 12,581 average positions.

Now, this budget as presented here, does include 719 average positions and $31,464,000 which would be used to carry on the alcohol and tobacco functions in the proposed transfer from the Bureau of Alcohol, and Tobacco and Firearms.

Mr. Chairman, I know that that is a separate matter that has been considered by the committee. It is simply set forth in this budget because that was the format in which it was laid out prior to the hearings.

The fiscal year 1983 budget for the Customs Service reflects the policies for this administration to control Government spending, reduce crime, increase operating efficiency and effectiveness, and improve responsiveness to the private sector.

CUSTOMS PRIORITIES

First of all, Mr. Chairman, the Customs Service is making law enforcement a high priority. The Customs Service is a law enforcement agency, with varied and diversified enforcement missions, and plays a critical role in enforcing significant laws involving trade, narcotics interdiction, investigation of fraud, and currency violations. Significant developments have resulted from stepped up enforcement of the trade violations involving the legal export of critical technology and from current transaction—currency transaction investigations under the Bank Secrecy Act. The Customs Service investigates not only violations with respect to the Bank Secrecy Act, but also establishes major felony violation currency cases against organized crime violators especially major drug smugglers. The Customs Service has also assigned 257 additional customs officers to the Vice President's Task Force on South Florida to conduct drug smuggling investigations and interdiction investigations within an operational task force and in close collaboration with the Drug Enforcement Administration.

Facilitation of passengers and cargo will continue to be a high-ranking priority, supported through the development of sound selectivity method, allowing customs officers to focus their efforts on "high risk" passengers and cargo, while allowing the predominantly law abiding transactions to receive minimal attention.

Examples of the selective methods as applied to passenger inspection or citizen bypass inspection in operation at 22 airports and one-stop inspection operating at five airports are citizen bypass which allows U.S. citizens with valid passports to bypass immigration processing and proceed directly to customs, while one-stop uses one Federal inspector, cross-designated to perform inspections for customs, immigration, and agricuture. These inspectional processes have reduced time for citizens to clear customs. The accelerated specialize inspection system test, also known as ASIST, undertaken in Miami and Los Angeles airports, is currently being evaluated. This 6-month test uses cross-designated customs and immigration inspectors who screen passengers prior to claiming their baggage.

In the cargo inspection area, the Customs Service implemented the automated cargo clearance and enforcement processing test—ACCEPT—in New Orleans during fiscal year 1981. ACCEPT uses automated intelligence and examination criteria to identify high risk cargo shipments for inspection. The sum total of these techniques is to enhance customs efficiency and effectiveness by allowing personnel to work smarter.

A major responsibility of the Customs Service is revenue collection. Therefore, it is imperative that we implement methods that protect the revenue while facilitating the flow of passengers and cargo across our borders. During fiscal year 1981, the Customs Service processed over 314 million people, and over 4.6 million formal entrees, and collected $9.2 billion in revenue. In fiscal year 1983, the Customs Service plans to improve debt collection efforts and incorporate modern business practices and entry processing functions through automation where possible.

Mr. Chairman, in closing, I would like to thank this committee for its support of the U.S. Customs Service. Now, I will ask Mr. von Raab, the Commissioner of Customs, to present his prepared statement, and then we will be happy to respond to questions the committee may have.

Mr. Chairman, one procedural item, if I could. As you know, there is pending a supplemental appropriations request for 1982, and I have prepared a brief statement on that subject. We could get to that afterward, or I could submit that statement for the record.

PREPARED STATEMENT

Senator ABDNOR. Why do we not just submit it for the record? It is going to be a long afternoon, anyway, so I think it would be fine if you submit your statement for the record, and I will ask that it be included in the record in its entirety.

Mr. WALKER. Very well.

[The statement follows:]

STATEMENT OF JOHN M. WALKER, JR.

I appreciate the opportunity to appear before you in support of the supplemental appropriation request of the U.S. Customs Service for fiscal year 1982. In addition to a pending supplemental for the October 1981 pay raise in the amount of $18,565,000, the Customs Service has a program supplemental request for $6,865,000 to support its investigative enforcement efforts undertaken as a part of the Vice President's Task Force on South Florida initiatives to deal with the epidemic crime and drug smuggling problems in Florida.

This funding will be utilized to accomplish the following objectives: (1) the seizure of significant amounts of narcotics contraband; (2) the investigation and arrest of significant numbers of financial and smuggling violators including the seizure/freezing of their assets; and (3) the deterrence of additional narcotics-related smuggling and financial transactions in the Florida area. The Customs Service has assigned 257 customs officers including agents, patrol inspectors and administrative support to the task force and has the benefit of E2C and Cobra aircraft on loan from the military.

As one of the major Federal law enforcement agencies involved in the implementation of task force initiatives, it is essential that the Customs Service participate on a scale that will achieve maximum investigative and enforcement results. Without this supplemental funding, customs will not be able to meet their commitments to the Vice President's Task Force initiatives.

In conclusion, I would like to thank the committee for its support of the Customs Service in providing the necessary resources for it to perform this timely and important mission. At this time, I would like Mr. William von Raab, Commissioner of Customs, to make his statement. Subsequently, we will both be glad to respond to any questions the committee may have.

STATEMENT OF WILLIAM VON RAAB

INTRODUCTION

Mr. Chairman and Members of the Committee, we appreciate the opportunity to appear before you today to present the U.S. Customs Service FY 1983 appropriation request of $530,524,000 and 12,581 direct average positions. This budget includes 719 average positions and $31,464,000 to carry on the alcohol and tobacco functions transferred from the Bureau of Alcohol, and Tobacco and Firearms. This level of funding assumes only minimum enforcement of the Federal Alcohol Administration Act, with 100 average positions and $3,500,000.

This appropriation level represents a net decrease of $20,113,000, which is the result of an uncontrollable increase of $25,534,000 to maintain the current level of operations for Customs functions, offset by a reduction of $45,647,000 in Customs operational staffing and costs. Our request assumes a reduction-in-force of 1,504 full-time permanent positions. In addition, this request assumes attrition of 800 positions for a total decrease of 2,304 Customs positions.

MAJOR ACCOMPLISHMENTS

The fiscal year 1983 budget for the Customs Service mirrors the policies of this Administration for control of government spending; reduction of crime; responsiveness to the private sector; and increasing the efficiency and effectiveness of operations.

The objectives within the Customs Service budget closely follow these policies. Foremost, enforcement has not been emphasized sufficiently in Customs; therefore, we will turn this around by making law enforcement our highest priority. Customs has a critical role in enforcing a variety of significant laws involving trade, drug interdiction, export of critical technology, and commercial fraud.

Secondly, facilitation of passengers and cargo will also be emphasized, since, in our opinion, most people we service are law abiding. This is not contradictory to enhanced law enforcement. Customs officers must focus their efforts on the "high risk" passengers and cargo while allowing the predominantly law abiding transactions to receive minimal attention. The development of sound selectivity methods is critical to the accomplishment of this objective.

Finally, in an era of declining resources, this budget continues our efforts to reduce the overall cost of doing business. Bureaucratic maintenance operations will be reduced or eliminated by instituting sound management practices and systems to eliminate waste. Overhead, as well as redundant and marginal operations, have been specifically targeted for significant reductions to partially meet the reduced resource levels reflected in this budget. We are also studying a number of options to achieve resource savings and improve operational performance, including a possible regional reorganization. In this area, we are completing a reevaluation of our regional structure which will be submitted to the Department for review in the very near future.

To implement the objectives within this budget, we will rely on further deregulation, modern management practices, automation and technology to resolve the problems posed by increases in workload, paperwork, and enforcement threat. In addition, major structural reorganizations will be implemented as required to help meet these overall objectives.

INSPECTION AND CONTROL

The Inspection and Control Activity encompasses programs involved in the processing of persons and cargo, as well as the clearance of carriers, for both revenue and enforcement purposes. In FY 1981, Customs processed over $257 billion worth of merchandise and cleared more than 314 million persons and 96 million vehicles. This represents workload increases of 8 percent, 5 percent, and 8 percent respectively, over FY 1980. These workload increases seem rather ominous in view of the budget reduction of 1,656 positions for this activity, however, our goals are to continue to facilitate the flow of international commerce and travel without sacrificing enforcement.

As I have previously stated, most of our clients are honest and law abiding and we can not continue to penalize the vast majority of passengers and importers by subjecting them to antiquated, time delaying processing methods. Customs will implement innovative selective processing techniques and criteria to capitalize on the honesty and high level of compliance of the majority of passengers and cargo. In addition, we will expand existing cargo selectivity systems and develop an innovative passenger processing system that will reduce clearance time. By implementing and expanding these techniques, we will increase the facilitation of passengers and cargo which will offset the severity of the impact of the budget reductions.

Use of these techniques recently resulted in the seizure of 116 pounds of heroin concealed in coffee urns in a Brooklyn warehouse, and 37 pounds of heroin concealed in false-bottom suitcases at JFK International Airport. The 116 pound seizure was the largest heroin seizure in more than 7 years.

Passenger Processing

While the number of persons entering the United States is expected to increase 6 percent by the end of FY 1983, the percentage of air passengers will increase substantially more than by land or sea. Air passengers, because of their high concentration in time and place, strain Customs resources more severely.

To meet these greater demands, Customs has implemented inspection systems such as Citizen By-pass and One-stop. Citizen By-pass is operating at 26 locations within 22 airports, and One-Stop is in operation at five airports.

A six-month Accelerated Specialized Inspection System Test (ASIST) began August 4, 1981, at Miami and Los Angeles International Airports. To judge the success of ASIST, the three Federal Inspection Services (FIS), the Customs Service, the Immigration and Naturalization Service (INS), and the Animal and

Plant Health Inspection Service (APHIS), are comparing the processing rates, staffing requirements, enforcement results, facility, and aircraft peaking data obtained during the test period with available data from the comparable period of last year. Preliminary conclusions from this test are that: (1) ASIST is more expensive to operate than other alternatives; (2) the increase in facilitation is questionable; and (3) the impact on enforcement results is uncertain. The complete evaluation of the test program has been forwarded to the Department for review and transmittal to Congress.

The ASIST test has been a useful learning experience. We have gained valuable information about passenger processing. We believe that our systems can and should be more flexible and adaptive to unique airport characteristics. As a result, we are developing a large airport passenger processing module to be employed at new airports and those scheduled for renovation.

Cargo Processing

In FY 1981, Customs processed over 4.5 million formal entries. Faced with substantial decreases in staffing in FY 1983, selectivity is imperative. We have placed the emphasis not only on the facilitation of passengers but also on the facilitation of cargo. To accomplish this we are expanding existing cargo selectivity systems and developing performance standards and specific goals. I would now like to discuss several systems which have been specifically designed to facilitate this flow of cargo while focusing on high risk transactions.

The Automated Cargo Clearance and Enforcement Processing Test (ACCEPT) was revised and implemented for final evaluation in New Orleans during FY 1981. Based on the success of this test, ACCEPT is being considered for implementation nationwide and for programming on the new Customs computer during FY 1982. A similar system used at land borders, Better Border Enforcement Through Selectivity (BBEETS), also uses prior information and violation profiles to strengthen enforcement while expediting cargo flow.

Final implementation of an on-line In-Bond system is underway to monitor and control the nationwide flow of imported merchandise being transferred under bond. Paperwork involved in this procedure has thus been sharply reduced, simplified and automated for nearly 100 percent of these shipments.

In FY 1981, new x-ray systems designed to satisfy Customs unique requirements were instrumental in the seizure of cocaine, hashish, and marijuana, and in the seizure of more than $2 million in currency. Other technologies will be applied in FY 1983, concentrating on systems to detect narcotics and currency concealed in baggage, packages, and conveyances.

In September 1982, Customs will eliminate approximately 300 warehouse officer positions and will shift operations from on-site control to spot checks and regulatory audits in inventory. This will produce significant savings for the private sector.

Customs Detector Dog and Special Enforcement Teams continued their successful interdiction activities, which accounted for numerous significant seizures, during FY 1981. Illicit drugs, prohibited articles, and undeclared merchandise seized by Customs were valued at more than $5.4 billion.

TARIFF AND TRADE

The principal functions of the Tariff and Trade program derive from the Tariff Act of 1930, which requires that Customs carry out appraisement, classification, duty collection and liquidation on entries of imported merchandise. With a record of $9.2 billion collected in FY 1981 and increases projected through FY 1983, it is obvious that Customs must implement new work methodologies and maximize our automation capabilities in view of the 505 position reduction contained in the FY 1983 budget.

One of these new work methodologies is the development of plans to centralize duty assessment functions. This will reduce the number of duty assessment locations nationwide from 70 to only 35. This centralization should facilitate communication, increase uniformity of appraisement, and reduce overhead, without unduly disrupting the trade community and the public at large. The centralization will require less manpower utilization.

Resource allocation systems are being developed and implemented in both passenger and cargo processing, and tariff and trade functions to ensure equitable and efficient service to the trade community and the public.

Maximizing Automation Capabilities

The new Customs computer will greatly assist Customs in achieving integrated systems' support and incorporate modern and efficient business practices into Customs functional operations involving entry, revenue, bond, quota, cargo control and administrative processing. This computer will facilitate more responsive support for current systems, eliminate duplication in present technical and operational support, and provide a baseline for significantly improved user support.

A very important automation project is the design of a comprehensive Selective Entry Processing system. To cope with increased entry workloads, this system will allow for reduced levels of processing for certain low risk entries at both the examination stage and classification and appraisement stages. In FY 1983, system design and development should be completed and ready for programming and testing.

Customs and the brokerage community will have completed an evaluation of the Automated Broker Interface (ABI) pilot test by the start of FY 1983. After the evaluation a decision will be made on whether to implement a national ABI system. This project is expected to pay increasing benefits for the future by creating a communications and processing environment that will lead us to eliminating large amounts of paperwork and providing the capability for simplified methods of processing imports and duty payments.

Recognizing the technological changes that are occurring in the commercial business environment that Customs supports, we are currently structuring the basic core of what will become an integrated commercial processing support system. This system will handle the latest interfaces and utilize the latest technologies available in the automation field today.

By implementing these new work methodologies and maximizing our automation capabilities, we will be streamlining our operations and increasing our effectiveness and efficiency while reducing Customs resource requirements.

TACTICAL INTERDICTION

The primary goal of the Tactical Interdiction Program is to detect and apprehend persons involved in the smuggling of contraband into the United States both at and between the ports of entry. The FY 1983 budget includes a reduction of 108 positions for this program. Even with this position reduction, we are confident that we can maintain a high level of enforcement results by capitalizing on successful approaches and strategies and eliminating operations which are not cost effective.

The vast majority of the smuggling threat involves drugs. To combat this threat, Customs maintains a highly mobile interdiction force, proficient in land, sea, and air tactical enforcement operations tailored to meet the ever changing smuggling patterns.

Our principal interdiction force is some 1,200 Patrol officers, stationed at land, sea, and air ports of entry in the U.S., and supported by airplanes, helicopters, and boats. During fiscal year 1981, both nondrug and drug seizures made by Customs Patrol officers amounted to almost $4.8 billion.

With the Administration's commitment to fight crime, I fully intend to emphasize Customs participation in this law enforcement effort and to seek closer cooperation with other law enforcement agencies as well as with foreign countries.

Current Efforts

Our Land Interdiction Program conducts a variety of traditional enforcement operations such as surveillances, patrols, continuing examinations of passengers and crew members, and vessel and aircraft searches.

The Marine Interdiction Program operates 95 boats that are stationed at 49 different locations. These boats are used for stationary and moving surveillances, routine patrols, and intelligence gathering.

A prime concern of the U.S. Customs Service has been the effectiveness of our Air Interdiction Program as a deterrent against the smuggling of narcotics and contraband via aircraft. After an extensive review, we conducted a 5-month test of a new program design and strategy. The test results yielded a 173 percent increase over "normal" air interdiction results. Based on those favorable results, this module operation concept will be instituted in the Miami Region in fiscal years 1982-1983. Due to budgetary constraints, only the nonequipment related methodologies and procedures developed from this strategy will be implemented servicewide.

In fiscal year 1981, Congress appropriated $10 million for enhancement of the Air Interdiction Program. These funds were used to purchase detection and other equipment which is being used to disrupt drug trafficking primarily in the southeastern United States.

Customs seizures, in FY 1981, were 234 pounds of heroin, 3,741 pounds of cocaine, 17,991 pounds of hashish, 38.9 million units of polydrugs, and 5 million pounds of marijuana. Some of these seizures were made in conjunction with other agencies. On March 9, 1982, a Tactical Enforcement Support Team seized 3,906 pounds of cocaine at Miami International Airport. This was the largest amount of cocaine ever seized in the United States.

We are confident that we can maintain the same high level of enforcement results we experienced last year. We reiterate that by capitalizing on successful approaches and strategies and eliminating operations which are not cost effective, we will be able to vigorously pursue the fulfillment of our interdiction responsibilities.

INVESTIGATIONS

The Customs Service is responsible for investigating violations of Customs and related laws, particularly those for currency, fraud, export of critical technology and neutrality investigations. The resource level identified for FY 1983 for this activity includes a decrease of 35 positions through attrition.

Because of the steady decline in staffing since FY 1979, we are emphasizing quality rather than quantity of cases and utilizing pre-screening methods to identify high payoff, probable conviction investigations. One successful method is to expand the sponsorship of U.S. Attorneys as early as the investigative stage.

Our emphasis has also recently incorporated the top priority areas under the National Criminal Justice Program of Federal law enforcement agencies. By the end of fiscal year 1981, 64 percent of our cases on hand were in four top priority categories (currency, fraud, critical technology, and neutrality). During that year, felony convictions increased 29 percent and currency convictions nearly doubled (150 in FY 1981; 74 in FY 1980).

We will also continue special enforcement efforts to isolate high-level, high-risk violators. These endeavors include Operation El Dorado, directed toward the estimated $80 billion in illicit narcotics currency transactions; Operation Exodus focusing on critical technology exports; and Operation Fair Trade targeted toward fraud violations in industry.

CONCLUSION

In my closing remarks, I would like to reiterate that Customs basic mission is to collect the revenue from imports and to enforce Customs and related laws. Customs fulfills this mission in a highly dynamic environment performing a variety of functions which impact the traveling public, the import and trade community, the health and welfare of American business and the general public. The revenue collected by Customs, in FY 1981, represented a return of over $18 for every appropriated dollar spent in carrying out our Customs responsibilities. The activities performed by Customs in executing its responsibilities call for increasingly sophisticated operational and enforcement techniques and the application of a wide variety of skills and disciplines.

With this Administrations' determination to crack down on crime and strengthen the economy, I can see Customs playing an increasingly important role in the near future. More must be done to strengthen Customs internal operaticns and to devise truly effective programs to combat smuggling and protect the revenue.

I believe the strategy I have presented here is the direction in which Customs must go. I see our efforts as culminating in tangible results in a number of areas. Drug seizures and seizures of other contraband will increase. Drug trafficking will be disrupted. Revenue will increase. The illegal export of critical technology to Eastern bloc countries will be reduced. Paperwork and regulations imposed on the trade community will be reduced. Finally, passenger and cargo delays will be reduced.

While we are reducing Customs positions, I intend to make real progress on these priorities in terms of increased enforcement results, improved cost effectiveness, better service, and a modernized Customs Service.

This concludes my introductory statement. We will be pleased to discuss any of the details of our request and answer any questions you or the Members may have.

INTRODUCTION OF ASSOCIATE

Senator ABDNOR. Mr. von Raab?

Mr. VON RAAB. Mr. Chairman, thank you very much for this opportunity to appear before you today. I would like to mention at this time that Mr. DeAngelus, who is sitting at my immediate right, will shortly be, the new Deputy Commissioner of Customs. So I am relying upon him to answer the difficult questions. You may direct those to him.

Of course, Mr. Van Kirk, your able and congenial assistant is aware of the general reorganization that is taking place at Customs headquarters.

CUSTOMS REQUEST

Today we are presenting an appropriations request of $530,524,000 and 12,581 direct average positions. This appropriation level represents a net decrease of $20,113,000, which is the result of an uncontrollable increase of $25,534,000 to maintain the current level of operations for Customs functions, offset by a reduction of $45,647,000 in Customs operational staffing and costs. Our request assumes a reduction in force of 1,504 full-time permanent positions. In addition, this request assumes attrition of 800 positions for a total decrease of 2,304 Customs positions.

More detailed information can be found in our fiscal year 1983 budget submission and in my formal statement which I have submitted for the record.

CUSTOMS POLICY

As we carry out Customs basic mission of collecting the revenue from imports and enforcing customs and related laws, I intend to shape Customs policy to conform to this administration's direction. Foremost, enforcement has not previously been emphasized sufficiently in Customs; therefore, I intend to turn this around by making law enforcement our highest priority. Drug smuggling is on the increase, and law enforcement agencies are not getting a large percentage of the estimated total traffic. Routine workload and paperwork are requiring more and more staff time, leaving less time for enforcement efforts. I intend to highlight not only the overall law enforcement thrust of Customs, but also the substantial effort and results that are and will be taking place.

SEIZURES

I would like to tell you about some recent seizures made in Miami and New York. On March 9, a tactical enforcement team seized 3,906 pounds of cocaine at Miami International Airport. This was the largest cocaine seizure ever made in the United States. In January, two seizures in New York netted approximately 153 pounds of heroin. One of these seizures was 116 pounds and was the largest heroin seizure in more than 7 years. These seizures demonstrate the intensification of Customs enforcement thrusts against narcotics smuggling.

LAW ENFORCEMENT

The administration has made a commitment to fight crime, in response to public concern. We in Customs have a unique opportunity to contribute, and I would like to briefly mention our strategy for accomplishing this. We must better define Customs and other agencies' roles in drug enforcement efforts; stress intelligence, technology, and analysis of performance; emphasize selectivity, increasing the use of profiles and new techniques to focus on high risk transactions; and maintain a mobile force to respond to shifts in threat. In addition, we will concentrate on special operations designed to disrupt conspiracies and halt illegal export of critical technology; impact the national drug problem, with a special emphasis on heroin smuggling; detect major losses of revenue and criminal fraud by increasing investigative activity in the trade area; and disrupt the cash flow of narcotics traffickers and other organized crime organizations.

REVENUE COLLECTION

Another important priority, our responsibility to collect revenue from duties, fees, and excise taxes, is particularly crucial during the period of corporate and personal income tax reductions and budgetary restraints designed to put our Nation's economy back on a strong footing. Our debt collection and cash management initiatives include the use of lock box collection facilities, assessment of interest on delinquent accounts, more effective timing of bank deposits, and a proposal that the estimated duty and tax deferral period be reduced from 10 to 3 days.

TRADE

Customs has a major impact on commerce, as we are responsible for the administration of trade laws as well as tariff and nontariff controls on imports and exports, and carry out U.S. trade policy and protect both U.S. industry and consumers. We are seeking to develop closer bilateral relations with the customs administrations in other countries, particularly those which are major trading partners of the United States. It is our belief that such customs-to-customs contacts can be beneficial in further developing our trading relationships and in resolving any problems that may arise.

I might emphasize in this respect, that toward the end of this week, a delegation from the Japanese customs will be meeting with the U.S. Customs at Washington, to discuss the problems that we both face, particularly those nontariff trade barriers that seem to have been erected against U.S. exports to Japan.

Senator ABDNOR. May I stop you one moment?

I was wondering, do you have sufficient funds for handling this meeting with the Japanese customs people, for entertaining—not just entertaining, but setting up this conference?

Mr. VON RAAB. Yes, sir.

Senator ABDNOR. There are funds in your budget?

Mr. VON RAAB. Yes; there are funds available.

Senator ABDNOR. We call it representation funds.

Mr. VON RAAB. Yes, sir. The representation funds are controlled by the Treasury Department, but we have sufficient funds to handle the Japanese meetings.

Senator ABDNOR. Very good. Sorry to interrupt you.

PASSENGER AND CARGO PROCESSING

Mr. VON RAAB. While it is important that we emphasize our law enforcement and revenue collection functions, I am well aware that this must be done in a manner which continues to facilitate the movement of people and cargo across our borders. We believe that most of our clients are law abiding and rather than subject them to antiquated, time delaying processing methods which produce relatively insignificant seizures, we plan to implement innovative and selective processing techniques, including those Mr. Walker mentioned. We will place increased emphasis on special enforcement operations and interdisciplinary task forces to target against potential violations and to allow the majority of all Customs processing to be facilitative. Additionally, we will develop performance standards and specific goals in both passenger and cargo processing. The end result, we believe, will be increased facilitation of both passengers and cargo.

I am a strong believer in the free enterprise system and that it should be allowed to operate as much as possible free from Government overregulation. Customs also suffers from the regulatory burden. Paperwork requirements in Customs have increased dramatically. Therefore, we plan to assess existing laws and regulations to determine which ones are no longer appropriate and can be eliminated. The routine workload and paper processing burden will be reduced, thereby, increasing our efficiency in this area.

REGIONAL REORGANIZATION

Finally, we are developing a proposal to reduce the number of Customs regions and districts. The savings which are achieved in reducing the number of offices would be used to limit the effect of the fiscal year 1983 reductions on high priority enforcement areas. Even with a reduction of over 2,300 Customs positions from our fiscal year 1982 level, I intend to make real progress on these priorities in terms of increased enforcement results, improved cost effectiveness, better service and a modernized Customs Service.

This concludes my introductory statement. We will be pleased to discuss any of the details of our request and answer any questions you may have.

Thank you very much.

SOUTH FLORIDA TASK FORCE

Senator ABDNOR. Thank you, Mr. von Raab.

Recently the administration established a task force to combat crime problems in southeast Florida. Prior to and as part of the task force, Customs shifted most of the air program—as part of the task force Customs shifted most of its aircraft and personnel to southeast Florida—what was the impact on that customs, the air patrol unit, as a result of the concentrated effort in southeast Florida? Has it been a very positive program?

Mr. VON RAAB. Well, certainly the impact emotionally and psychologically on the Customs Service was terrific. We were able to employ our interdictory forces, and I might also add their investigative forces in an area in which, without question, poses the most serious threat to the national health and welfare of any drug smuggling area.

So I would have to say that the overall result on the Customs morale, and the Customs effort, was very, very positive.

Senator ABDNOR. It is still very much in operation, is it not?

Mr. VON RAAB. Yes, sir. Of course, we continue to review it, to make sure that we are bringing our forces to bear where they are most effective. We will continue to review this, day by day.

AIR INTERDICTION

Senator ABDNOR. And what is your assessment as to whether the concentrated air patrol effort in southeast Florida has decreased the air smuggling of drugs? Has there been a noticeable decrease?

Mr. VON RAAB. Yes; there has been a tremendous decrease, not only in abortive efforts to bring drugs in, but in efforts to bring them in at all. If you are purely a reader of statistics, you might be disappointed, however, as any enforcement agency would indicate, the deterrent is most important, and the deterrent has been absolutely amazing. The amount of drug traffic going into south Florida has been drastically reduced.

Senator ABDNOR. You read the statistics——

Mr. VON RAAB. The seizures do not reflect the effectiveness of the operation, because we have just scared a lot of people off.

Mr. WALKER. Mr. Chairman, I think I can add one point, or two points to this.

That is, our estimation is that since the program has begun, the price per pound of cocaine has dropped significantly in Colombia, by about $10,000, and correspondingly risen in south Florida by a comparable amount, that is strictly a function of the application of the law of supply and demand on the problem.

The radar screens which were relatively filled with bogies, if you will, or smuggler aircraft, prior to this program, are relatively free today of that, and our information is that we are watching the smugglers sitting offshore, and they just are not taking the chances that they used to take.

Now, while that may not give us immediate gratification of being able to bring down smuggler planes, it is even more effective because instead of bringing two or three down a day, with the rest coming in, none of them are coming in. We are stopping them cold at this point.

Senator ABDNOR. This reflected where you concentrated. We still have other parts of the border, I assume?

Mr. WALKER. Sure, but you have to start somewhere.

Senator ABDNOR. You have to start somewhere. This certainly means then that there is hope in controlling this problem in this situation.

I visited along the border, in some areas, and I was told of the great job that you are doing over in the Florida side. I guess that is where most of the concentration and effort has been. It also points out that we can do more.

Mr. WALKER. Well, I think it stands to reason that as more and more pressure is applied to the Florida problem, that we have to be vigilant to see whether the smugglers will be spreading out and trying to land elsewhere.

INVESTIGATIVE EFFORTS

Mr. VON RAAB. Mr. Chairman, if you would, I would be very much appreciative if Mr. Corcoran could comment on what is a little known aspect of this operation, and that is the investigative side on the part of Customs.

Senator ABDNOR. We will hear from Mr. Corcoran.

Mr. CORCORAN. Mr. Chairman, I think this is a unique investigative operation wherein Customs is participating concurrently with DEA and ATF and IRS, and many of the other agencies that are in the task force in Florida.

We have had a considerable amount of investigative activity in the last month, involving not only the interdiction of aircraft, which we have been talking about, but also the vessel entries. The intrusions of vessels were very quiet, for a while, but in the last 2 weeks we have had quite a few of the motherships in operation again, and some of the offloading going on again along the coast of Florida, and we are pursuing the investigation of these.

Also, we are investigating the cargo and the passenger carriers coming into Miami Airport. We see the substantial increase of cocaine smuggling, by body carries, which heretofore were not coming into the airport to the degree that they are now, and also increased cargo smuggling.

The task force that is investigating this, as you can imagine, is a comprehensive, long-range conspiracy type of case development, and, our Customs agents are bearing quite a caseload from the interdiction activity. We are also quite successful in unearthing some major targets that we were not aware of in the southern Florida area, and the lull in the interdiction itself has given us a chance to really concentrate on the investigative side with beneficial results.

I think in the 6-months' time that we intend to participate in the task force, we will see major results in long-term impact on the traffic down there.

Senator ABDNOR. You work very closely with the drug enforcement on that.

Mr. CORCORAN. Yes, we do.

The Drug Enforcement Administration agents are leading the investigative task force.

Senator ABDNOR. They are under Justice?

Mr. CORCORAN. Yes, they are.

Senator ABDNOR. I could not help but wonder, though. Do you have excellent working relationship, or do you sometimes get crosswise, because of the different agencies?

Mr. CORCORAN. Well, I think this task force is unique in that it is the first time in the last 9 years that the Customs Service has participated in the investigation and intelligence gathering. DEA is the lead agency, the task force leader is a DEA agent, the deputy task force leader is a Customs agent, and all the groups are either led by DEA or Customs agents, so it is a very effective combined investigative task force.

COOPERATION WITH INS AND DEA

Senator ABDNOR. There was one question that comes up in my mind. I was taking a swing at the Immigration Department, Customs entered another, the border patrol, and I just wondered if they were all working together, maybe if it was the same agency they might be better coordinated, but maybe what you are doing now will help bring that about.

Mr. VON RAAB. I have tried very hard to work with Al Nelson of the Immigration and Naturalization Service. My senior staff and his staff have monthly meetings, which have been quite productive, and I have made similar efforts with Bud Mullen of the Drug Enforcement Administration. We have not quite worked up to the monthly meetings, but I see Bud about two or three times a month, and we talk over all of our problems, and although I have not been around for the past 10 years, I think the level of cooperation among those three agencies, is at its highest level since.

Senator ABDNOR. This is something new, getting together?

Mr. VON RAAB. Well, I think at the level of Commissioner of Customs and Administrator of DEA, certainly it is the first time I have seen this cooperation at the highest level filter down to the operating level. There have been lots of friendships in the past between the Commissioner of Customs and the Administrator of DEA, but for some reason it just did not make it down to the working level.

In this operation in Florida, we see a very, very fine working relationship between the drug enforcement agents and the Customs agents.

Senator ABDNOR. I think that is great. I commend you for that, because certainly it looks to me like it is imperative that everyone is cooperating with each other to the utmost, because it is the only way we are going to get ahold of this.

CUSTOMS AIRCRAFT

The Customs conducted an air operation called project thunderbolt, which used the air module concept, but also incurred the cost of about $800,000 for two Navy E2C aircraft for 2 months. According to a Customs evaluation report on thunderbolt, about 74 percent of the suspect interceptions occurred within the radar coverage of the Air Force chief skyhook, a lower cost radar system.

To what extent did Customs consider the skyhook capabilities as an alternative to the E2C?

Mr. VON RAAB. I believe that Customs made an evaluation of the skyhook in the past. I do not know how long ago it was, before the skyhook had been completely brought up to the level of effectiveness that it is at now, and at that time Customs felt it was not that helpful.

However, the skyhook that is now being operated out of Key West, poses a potentially tremendous resource to the Customs Service, and the possible use of the skyhook in customs detection and interdiction efforts is under review at this time.

We are working together, particularly Assistant Secretary Walker and Assistant Secretary Juliana have this matter before them at the present time.

Senator ABDNOR. Who is going to fund the Agency's operating costs?

Mr. VON RAAB. Mr. Walker, do you want to answer that?

Mr. WALKER. Yes; I can do that.

As you know, we have E2C's in operation in south Florida, and an issue has been raised as to funding by the Defense Department. The Defense Department has gone ahead and furnished the aircraft, without a commitment, funds on any reimbursable basis under the authority of the recently passed legislation which removed the restrictions associated with the posse comitatus from the law.

Right now, as matters stand, the Defense Department is furnishing these aircraft at their own cost. Now, whether or not they will tender a bill, and what consideration will be given to that bill, and how the matter will be resolved, we will have to wait for future events to unfold.

POSSE COMITATUS

Senator ABDNOR. That particular legislation we passed last year, that has already proved helpful to you?

Mr. WALKER. Yes, indeed. It has cleared the way for the Defense Department to furnish equipment and it has also resulted in their establishing administrative guidelines within the Defense Department to govern the law enforcement assistance. It is an established practice and procedure now in the Defense Department to provide law enforcement assistance along the lines of that legislation.

AIRCRAFT

Senator ABDNOR. I do not mind telling you, when I stopped over at Tucson Air Base there, and the men were taking off, I saw that huge—it looked like a section of stockpile, I had to ask myself why should there ever be any shortage of what Customs would need for their work. I have to believe that it will help if the planes fly sometime. But I hope there is more of that.

I have to believe that those planes could do like you have done in southeast Florida, they could do it along the border if they had the equipment to do the job. Maybe I am over hopeful of it, but it looked effective to me. I saw those planes, and I could not believe it. Some day I think I have to have a talk with the Secretary of Defense, to see what he wants to do about it.

REDUCTIONS IN INSPECTION AND CONTROL

Faced with increasing workloads, and a substantial decrease in staffing, from the fiscal 1982 level, how does Customs justify a proposed 15-percent decrease in the inspection and the control staff, when it is unable to process the current volume of international travelers and imported products in an efficient and timely manner?

I notice in your testimony there was a cutback. I think you know the history of this committee. We have not been tight when it comes to law enforcement. We feel very strongly about it, and I just wondered how at this time when the needs look so great, that we could think in terms of a cutback, not that we should not commend you for it, but this is the time to do it, but is now the time to do it in this area?

Mr. VON RAAB. First of all, I would like to take issue that we are not processing passengers and cargo in a timely and efficient manner. I think we are trying our best, and I think except for occasional situations, in which six 747's accidentally show up at Kennedy Airport at the same time, or a number of superships appear at a particular seaport, I think that most importers have found that the processing of cargo, and at least the various trade associations with whom I have dealt on the processing of passengers, have been recently satisfied with the level of processing that Customs has been able to show up to this point.

HOW CUSTOMS PLANS TO COPE WITH REDUCTIONS

I think probably the easiest answer to your question is to say that we are going to be relying upon different techniques which we regard as not only more modern, but also we believe are more effective from the law enforcement standpoint.

On the passenger processing side, we will be relying much more on selectivity and better training of our inspectors. Our greatest successes in the inspection of passengers and finding of contraband, or in some cases high value merchandise, have been based upon the activities of inspectors who have gone through some of our very effective training programs.

I think the day of the saturation inspection, of every individual who comes through customs having all of his suitcases and pockets examined is probably at an end. Regardless of the number of inspectors that we put in compliance, there is no way that we are going to be able to continue the old approach of inspecting everything that goes by us. Nor do we wish to do that, because we have found that our most effective law enforcement technique is the use of our special enforcement teams, which go by different acronyms in different parts of the country.

Those have been the most effective approaches, not only in the passenger side, but in the cargo side. In the cargo side, we are also going to be implementing a number of the automated selectivity approaches.

For example, the ACCEPT system in New Orleans, and particularly the enforcement system called CACTIS, which is employed in San Francisco, will shortly be put into effect in a number of the parts of the country.

So although our inspector force may be reduced, we do not see that it will have a material effect certainly on the law enforcement, which is our most important concern, and second, I do not believe it will have a material effect upon the movement of the cargo or passengers through the various ports of entry.

Ms. BEEBE. Mr. Chairman, I would like to point out that 300 of those positions are not an actual reduction. We are shifting those through reimbursements, through a user charge. So we would continue an additional 300 over the numbers shown in the budget.

Senator ABDNOR. That is outside the budget, and coming in through the user fee?

Ms. BEEBE. The user fee, yes.

Senator ABDNOR. They are going to be in there, in a sense, but not through this particular budget?

Ms. BEEBE. That is correct.

ENFORCEMENT

Senator ABDNOR. I might comment. On my quick stopover, for instance, in Los Angeles Center where immigration and customs are located, I am satisfied that they are doing as great a job as possible. If I wanted to get rich quick robbing a bank, I would take my chance of coming through customs from time to time—what is it, one out of 11 get checked, with all due respect, of checking, looking at a person in the face and checking his bag.

I do not have any quick answer, but nevertheless it does make you think that if you wanted to go into something that is illegal or dishonest, that would be a better field to try to take your risk and success in robbing a bank, something like that.

FLORIDA ENFORCEMENT

I think I also heard, along the line, that coming in with drugs in Florida, they did not have over 4 pounds—what is it, cocaine? Well, they did not let them bring it in, they did not do anything about it. The Drug Enforcement Administration apparently was too busy after the big one. But I do not know, if a pound of cocaine comes in, if you have enough of those 4 pounds, you could do it pretty well.

I guess my point is, I guess that if you could continue doing as good a job as you are doing.

Mr. VON RAAB. Well, as far as the enforcement in Florida is concerned, I would say that I think you are probably right, that the Florida enforcement was a little weak until this administration really got geared up. But I would not recommend coming through Florida with any amount of cocaine at this point.

I think the new U.S. attorney down there, Stanley Marcus, has taken a totally different approach to the prosecution of cases. DEA ably assisted in this case, but the Customs Service is not letting anybody get away with bringing in any amount of drugs, and our enforcement results in Los Angeles are also quite respectable.

I do not know what chances a commercial importer of contraband would take. I do not know if they regard a 1 out of 10 chance as a commercially feasible approach or not, but I can assure you that by the time we are finished we will have reduced their chances down to a level which is no longer acceptable to the commercial trafficker of contraband.

SEIZURES

Senator ABDNOR. Well, then for the record could you provide a comparative analysis of the nonadmissible imports that were seized from; first, the international air travelers, and second, from land travelers; and then from imported cargo, and then also from individuals that tried to enter the country at other than a customs point of entry?

Mr. VON RAAB. Yes, sir, I will be happy to do that. I might just mention here what our seizures have been up to this point.

In heroin, we seized 234 pounds in all of 1981. Thus far this year we seized almost 200 pounds.

[The information follows:]

CUSTOMS SERVICE SEIZURES[1]

[Fiscal year 1981]

	From persons[2]	From cargo	Between ports
Heroin:			
Number	69	18	69
Quantity (lbs)	117	55	45
Cocaine:			
Number	684	69	310
Quantity (lbs)	622	562	2,602
Hashish:			
Number	1,238	50	217
Quantity (lbs)	318	17,280	383
Marihuana:			
Number	9,801	450	[3] 2,327
Quantity (lbs)	21,205	92,132	4,950,819
Other drugs, barbiturates and LSD:			
Number	2,956	54	342
Quantity (lbs)	458,484	10,107,952	31,006,755
Prohibited nonnarcotic articles:			
Number	17,191	132	500
Monetary instruments:			
Number	1,077	9	487
Domestic value	$17,581,441	$1,200,024	$10,621,493
General merchandise:			
Number	17,384	819	1,884
Domestic value	$22,677,985	$13,556,874	$18,433,635

[1] Adjusted to minimize duplication and overlap and for comparability with reported total seizures.
[2] Includes both land border and airport arrivals.
[3] Includes seizures by the Coast Guard, other agencies, and those jointly with Customs.

SEIZURES OF CONTRABAND

Senator ABDNOR. How much did you say, in the previous year?

Mr. VON RAAB. Two hundred thirty-four pounds in 1981, and this year we have seized close to 200 pounds, just in slightly more than half the time, and in cocaine we seized 3,800 pounds last year, and we already seized 5,000 pounds this year. Either they are sending more through, or we are more effective. I think it is probably a little of both, but I think it is stronger on the effectiveness.

Senator ABDNOR. Do you think that is because of the selectivity techniques in the process?

Mr. VON RAAB. I think it is better training of our force. The employment of not only inspectors, but also patrol officers, and import specialists, and in Florida the use of our agents, is more successful in combatting this threat.

SOUTH FLORIDA

Mr. WALKER. Mr. Chairman, I would just like to point out that in the Florida effort, which is where so many seizures can occur, there is a level of morale and spirit in the Customs Service that we have never seen before. We now have Customs special agents involved in drug smuggling investigations, and the spirit among inspectors, patrol officers, and investigators is just outstanding right now.

I think this has to contribute to the effectiveness and the degree of productivity of the Customs Service in interdicting drugs.

ADDITIONAL COMMITTEE QUESTION

Senator ABDNOR. I have numerous questions, but I am sure you would be willing to answer them in writing if we would submit them to you.

Mr. WALKER. Yes, sir.

Mr. VON RAAB. Yes, sir.

Senator ABDNOR. So if we have additional ones, we will do that.

It is a pleasure to have you all. We thank you for your time.

I will just be a second.

[A brief recess was taken.]

[The following question was not asked at the hearing but were submitted to the Department for response subsequent to the hearing:]

ADDITIONAL COMMITTEE QUESTION

Question. I have received a number of inquiries from the Port of Tampa regarding the need for more adequate inspection services to handle the increase in passenger cruise ship requirements. We understand that the Customs response so far has been to request that the cruise ship lines reschedule their departures and arrivals. The industry does, however, have a need for Saturday arrival and departure dates because of public preferences and demands.

What efforts has Customs taken to accommodate this stiuation? Is it correct that an additional $50,000 for the Tampa operation would fully address this situation?

Answer. The second cruise ship line planning to dock at Tampa has graciously agreed to time its arrivals some 2 hours earlier than the line now making regular Saturday calls. For the moment, that solves the Customs manpower problems so that both arrivals on the same day can be accommodated with the same personnel resources. In the event additional shipping lines plan Tampa arrivals, Customs would make every effort to get them to stagger their dockings, so that they could also be serviced at little or no additional cost.

U.S. Secret Service

STATEMENT OF JOHN R. SIMPSON, DIRECTOR

ACCOMPANIED BY:

- **JOHN M. WALKER, JR., ASSISTANT SECRETARY, TREASURY DEPARTMENT, [ENFORCEMENT AND OPERATIONS]**
- **MYRON I. WEINSTEIN, DEPUTY DIRECTOR**
- **JOSEPH CARLON, ACTING DEPUTY ASSISTANT DIRECTOR, INVESTIGATIONS**
- **JERRY PARR, ASSISTANT DIRECTOR, PROTECTIVE RESEARCH**
- **FREDERICK N. WHITE, JR., ASSISTANT DIRECTOR, ADMINISTRATION**
- **CORA P. BEEBE, ASSISTANT SECRETARY, ADMINISTRATION**
- **ARTHUR D. KALLEN, DIRECTOR, OFFICE OF BUDGET AND PROGRAM ANALYSIS**

STATEMENT OF JOHN M. WALKER, JR., ASSISTANT SECRETARY

Senator Abdnor. The subcommittee will come to order.

We have the Department of the Treasury, U.S. Secret Service.

Mr. Walker. Mr. Chairman, I am pleased to appear before you today in support of the fiscal year 1983 appropriations request for the U.S. Secret Service.

Appearing with me today are the Director of the Secret Service, John R. Simpson; key staff members of the U.S. Secret Service; Cora P. Beebe, the Assistant Secretary for Administration of the Treasury; and Arthur D. Kallen, Director of the Office of Budget and Program Analysis of the Treasury Department.

Mr. Chairman, the Secret Service request for fiscal year 1983 is $294,407,000 and 5,377 average positions.

BUDGET REQUEST FOR ATF RESPONSIBILITIES

This budget includes 1,731 average positions and $93,431,000 to carry on functions of the Bureau of Alcohol, Tobacco and Firearms, specifically those relating to firearms, explosives, and arson. This developed prior to the recent hearings on that subject.

PROTECTIVE ACTIVITIES

Protective activities remain the top priority of the Secret Service. During fiscal year 1981, the events surrounding the assassination attempt on President Reagan served to heighten the importance of the Service's protective function.

Also, during early fiscal year 1981, the Service assumed the protective responsibility for former President Carter. A significant protective responsibility of the Service during this current fiscal year was the simultaneous protection of former Presidents Nixon, Ford, and Carter, in attendance of President Anwar Sadat's funeral in Cairo. This difficult assignment was handled efficiently, and well.

Other significant demands for protection were made in connection with the security requirements of the U.N. General Assembly, and the international meeting of the monetary fund. While protection receives its highest priority, the Service continues to underscore the importance of its investigative responsibility for counterfeiting, check and bond, forgery and other investigative matters.

INVESTIGATIVE ACTIVITIES

In fiscal year 1981, the Service recovered $58.5 million in counterfeit currency, the second largest quantity ever seized. Again, the attempted assassination of President Reagan and the substantial increase in intelligence cases handled by the Service illustrates the indispensability of a major high level investigation function within the Service.

The Service must maintain a balance between its investigative and protective responsibilities. Owing to added protective responsibilities in recent years, this balance, has been weighted excessively toward protection.

CANDIDATE NOMINEE PROGRAM

During fiscal year 1983, the Service will start preparing for the candidate and nominee program for the 1984 Presidential election. Past experience has shown that the Secret Service protection of candidates has been required at earlier points.

During the past Presidential campaign, the Service began protection more than 12 months prior to the election. Leadtime for equipment procurement and for agent training necessitates a request for funds in this submission.

CLOSING REMARKS

Mr. Chairman, in closing, I would like to thank the subcommittee for its support of the Secret Service.

Now, I will ask the Director of the Secret Service to make his opening remarks, and then we will be happy to answer any questions that the committee may have.

PREPARED STATEMENTS

Mr. SIMPSON. Mr. Chairman, I have a long statement that I would like to provide for the record, and read a summary statement, with your permission.

Senator ABDNOR. Without any objection, the entire statements will be put in the record, Mr. Simpson.

You may proceed in any way you care.

[The statements follow:]

STATEMENT OF JOHN M. WALKER, JR.

I am pleased to appear before you today in support of the fiscal year 1983 appropriation request for the United States Secret Service. Appearing with me today are the Director of the Secret Service, John R. Simpson, key staff members of the U.S. Secret Service, Cora P. Beebe, Assistant Secretary (Administration) and Arthur Kallen, Director of the Office of Budget and Program Analysis, Treasury Department.

The request for fiscal year 1983 is $294,407,000, and 5,377 average positions. This budget includes 1,731 average positions and $93,431,000 to carry on the firearms, explosives and arson functions in the proposed transfer from the Bureau of Alcohol, Tobacco and Firearms.

Protective activities remain the top priority of the Secret Service. During FY 1981, the events surrounding the assassination attempt on President Reagan served to heighten the importance of the Service's protective function. Also, during early FY 1981, the Service assumed the added protective responsibility for former President Carter. Among the significant protective responsibilities of the Service during this current fiscal year was the simultaneous protection of former President's Nixon, Ford and Carter in attendance at President Anwar Sadat's funeral in Cairo. This difficult assignment was handled efficiently and well. Other significant demands for protection were made in connection with security requirements of the 35th meeting of the United Nations General Assembly and the annual meeting of the International Monetary Fund.

While protection receives its highest priority, the Service continues to underscore the importance of its investigative responsibility for counterfeiting, check and bond forgeries and other investigative matters. In fiscal year 1981, the Service recovered $58.5 million in counterfeit currency, the second largest quantity ever seized. Again, the attempted assassination of President Reagan and the substantial increase in protective intelligence cases handled by the Service illustrates the indispensibility of a major, high level investigation function within the Service. The Service must maintain a balance between its investigative and protective responsibilities. Owing to added protective responsibilities in recent years this balance has tipped excessively toward protection.

During fiscal year 1983, the Service will start preparing for the Candidate and Nominee Program for the 1984 Presidential election. Past experience has shown that Secret Service participation for the protection of candidates has been required at earlier points. During the past Presidential Campaign, the Service began protection more than twelve months prior to the election. Lead time for equipment procurement and for agent training necessitates a request for funds in this submission.

In closing, I would like to thank this Subcommittee for its support of Secret Service. Now I will ask the Director of the Secret Service to make his opening remarks and then we will be happy to answer any questions the Committee may have.

STATEMENT OF JOHN R. SIMPSON

Mr. Chairman, I am pleased to appear before you and the other members of this committee to present the annual appropriation request of the United States Secret Service and to report on our activities during the current and past fiscal year.

Introduction of Associates

With me today, Mr. Chairman, is the Deputy Director, Mr. Myron Weinstein, Mr. Larry B. Sheafe, Assistant Director for Investigations, Mr. Edward J. Pollard, Assistant Director for Protective Operations, Mr. Jerry Parr, Assistant Director for Protective Research, Mr. Frederick N. White, Jr., Assistant Director for Administration, Mr. Edward Walsh, Deputy Assistant Director for Protective Research, Mr. John Giuffre, Deputy Assistant Director for Administration, and Mr. Frank Palmer, the Chief of our Financial Management Division. Since this is the first appearance before this Committee of Mr. Sheafe, Mr. Pollard, Mr. Parr, and Mr. Walsh, with your permission, I would like to insert a short biographical sketch of each of these individuals for the record.

Larry B. Sheafe

Larry B. Sheafe is Assistant Director of the Office of Investigations. Previous to this appointment, Mr. Sheafe held the position of Special Agent in Charge of the Los Angeles Field Office. He began his career with the Service as a Special Agent in 1965 and was first appointed to the Sacramento Field Office. During his career, Mr. Sheafe has had extensive experience in both investigative and protective work. His field office appointments have included assignments in the Washington Field Office, Los Angeles Field Office, Anchorage and Las Vegas Resident Agencies, and the New York Field Office. He was promoted to Assistant Special Agent in Charge of the Counterfeit Division at Headquarters in 1974 and then to Inspector at Headquarters one year later.

Mr. Sheafe was transferred to the Presidential Protective Division in 1976 as Assistant Special Agent in Charge. The same year he was promoted to Deputy Special Agent in Charge. He became Special Agent in Charge of the Office of Protective Operations (Operations and Logistics) in 1977. He transferred again that year to the New York Field Office where he served first as Assistant and then Deputy Special Agent in Charge.

Mr. Sheafe was the recipient of a Special Achievement Award in 1971 for undercover work in five counterfeiting cases.

Mr. Sheafe is a member of the International Association of Chiefs of Police and the Federal Law Enforcement Officers Association.

Mr. Sheafe was born November 5, 1943, in Long Beach, California. He graduated with a Bachelor of Arts degree in 1965 from Sacramento State College.

Edward J. Pollard

Edward J. Pollard was appointed Assistant Director of the Office of Protective Operations in January 1982. Mr. Pollard, a former member of the Oakland California, Police Department, was appointed to the Secret Service in

San Francisco, California, on July 6, 1965. After serving two years in the San Francisco field office he was assigned to the Vice Presidential Protective Division. He was subsequently promoted to Assistant to the Special Agent in Charge of that Division.

Mr. Pollard served as an Assistant Inspector at the Secret Service Headquarters and held the position of Assistant Special Agent in Charge of the St. Louis field office.

In September 1978, he was assigned as the Assistant Special Agent in Charge of the Vice Presidential Protective Division and in July 1979, was promoted to the position of Special Agent in Charge of that division.

Mr. Pollard was born on January 2, 1941, in Flagstaff, Arizona. He graduated from the University of Arizona in 1964. He majored in Law Enforcement Administration and received a Bachelor of Science Degree in Public Administration.

Mr. Pollard is a member of the International/Association of Chiefs of Police and is a graduate of the Federal Executive Institute, Charlottesville, Virginia.

Jerry S. Parr

Jerry S. Parr was appointed Assistant Director, Office of Protective Research on January 4, 1982.

Mr. Parr was born September 16, 1930, in Montgomery, Alabama. He served in the United States Air Force during the Korean War. In 1962 he received a bachelor of arts degree in philosophy from Vanderbilt University.

Immediately after graduation, Mr. Parr was appointed a Special Agent of the United States Secret Service and assigned to the New York City Field Office. He was subsequently transferred to the agency's Nashville Field Office and the Washington Field Office. Following his field assignments, Mr. Parr served from 1965 - 70 in the Vice Presidential Protective Division where he was promoted to the position of Assistant Special Agent in Charge. He was then transferred for two years to the Foreign Dignitary Protective Division. In 1972, he returned for an additional two years to the Vice Presidential Protective Division where he was promoted to

Deputy Special Agent in Charge. The following year, he served as Deputy Special Agent in Charge of the Foreign Dignitary Protective Division. In 1975, Mr. Parr was promoted to the position of Inspector in the agency's Office of Inspection and served in that capacity for three years. He was then promoted to Special Agent in Charge of the Vice Presidential Protective Division and reassigned one year later as Special Agent in Charge of the Presidential Protective Division where he served until his present appointment as Assistant Director, Office of Protective Research.

Mr. Parr is a member of the International Association of Chiefs of Police, American Society for Industrial Security, Senior Executive Association, and the Honor Legion New York Police Department.

As a result of his actions during the assassination attempt on President Reagan on March 30, 1981, Mr. Parr was the recipient of the Department of the Treasury's Exceptional Service Award; the Secret Service Award for Valor; Commendations by the U. S. House of Representatives, the U.S. Senate, and the State of Maryland; the New York Honor Legion Award; Law Enforcement Officer of the Year (presented by the International Association of Chiefs of Police and Parade Magazine); and an award from The Association of Former Agents of the U. S. Secret Service.

Edward P. Walsh

Edward P. Walsh is Deputy Assistant Director of the Office of Protective Research. He was appointed to that position on January 4, 1982.

Mr. Walsh entered the Secret Service in 1965 in Dallas, Texas. He was transferred a year later to the New York Field Office and reassigned two years later to the Presidential Protective Division. He was promoted in three years to Assistant Special Agent in Charge and reassigned to the New York Field Office for one year. In 1972 he returned to the Washington Field Office as Assistant Special

Agent in Charge. Four months later, Mr. Walsh was transferred to the Intelligence Division at headquarters where he served for two years. In 1974 he was promoted to the position of Special Agent in Charge, Office of Investigations. Four years later he was promoted to the position of Inspector, Office of Inspection and promoted again in 1979 to Special Agent in Charge, Intelligence Division. He held that position until his appointment as Assistant Director, Office of Protective Research.

Mr. Walsh was born November 21, 1937, in New York City. He graduated from Villanova University in Pennsylvania in 1959 with a bachelor of science degree in economics.

Budget Request

The pending appropriation request for Fiscal Year 1983 totals $294,407,000 and 5,377 average positions, an increase of $65,419,000 and 865 average positions over the proposed authorized level for Fiscal Year 1982 of $228,988,000. This amount includes proposed supplemental funding in the amount of $5,855,000 for the comparability pay increase effective October 4, 1981. Included in our fiscal year 1983 request are substantial reductions for non-recurring expenses and $67,929,000 necessary to maintain current levels of operation. Also, $49,522,000 is related to the anticipated transfer of functions, pending Congressional approval, from the Bureau of Alcohol, Tobacco and Firearms.

In addition, the Service is requesting $161,000 to provide the most advanced state-of-the-art transparent and body armor in support of our protectees; $3,800,000 is required to convert a portion of the remaining retrofittable radio equipment and systems used by the Service in investigative and protective activities to voice privacy; and $105,000 for the rental of 35 Master Index data terminals which will combine much of the indices maintained by field offices and the central files operations in Headquarters into one Master Index System to be maintained on the computer.

We are also requesting $305,000 to maintain security at the homes of President and Mrs. Reagan and their children in California and for studies in behavioral research aimed at enhancing our Special Agents's ability to evaluate the dangerousness of subjects who come to their attention; $141,000 for additional equipment to enhance security at the Vice President's residence in Washington, D.C. and at the Secret Service Training Facility in Beltsville, Maryland; and $1,465,000 to establish a vehicle replacement schedule that will help to keep our fleet in a dependable, roadworthy condition and enhance our armored car distribution plan which increases the availability of armored cars throughout the country while reducing transportation costs and increasing the average life of the armored fleet.

Our final request is for $4,503,000 to prepare for our participation in the 1984 Presidential Campaign. Past campaign experience has shown us that actual physical protection of candidates may start as early as 12 months prior to the election. The requested funds will allow for the establishment of a Candidate and Nominee Protective Division within the Service and the requisite travel, supplies, equipment and other services. The funds are required in Fiscal Year 1983 to allow an appropriate amount of preparatory time.

Continued Increase in Activities

The past year has shown a continuing increase in the activities of the Service During Fiscal Year 1981 we assumed the added protective responsibility for another former president and his family, the former Vice President for a period of six months, and five Presidential family members. At the same time, the problems of world-wide terrorism required extraordinary measures with respect to the protection of foreign missions. Coupled with these activities has been an overall increase in the protective assignments pertaining to our permanent and temporary protectees.

Protective Effort

Our protective responsibilities continue to receive our highest priority. In this regard, we are continuously evaluating new equipment and methods to assist us in providing a safe and secure environment to those persons whom we protect.

Our 1981 protective efforts were highlighted by the successful conclusion of a Presidential campaign which required candidate protection five months ahead of schedule and caused great sacrifices by our personnel. Significant demands were also made in connection with the security requirements made necessary by the 35th meeting of the United Nations General Assembly, the annual meeting of the International Monetary Fund and, of course, the events surrounding the assassination attempt on President Reagan. Additionally, problems associated with world-wide terrorism continued to require extra security measures in all areas of our protective activities.

The events of the past year exemplify our ability to accomplish our protective and investigative mandates. In this regard, I am sure you realize that the backbone of our protective and investigative efforts is the dedicated men and women of the Secret Service who have given so unselfishly of themselves in the furtherance of our mission. I would like the committee to know that I am tremendously proud of their performance.

Assistance of Other Federal, State, and Local Law Enforcement Agencies

The Secret Service continues to rely heavily, especially during a Presidential campaign years,on the assistance and cooperation of local, State and other Federal law enforcement agencies to provide maximum security for our protectees. Indeed, without this support our protective mission would be severely jeopardized, if not practically impossible, and I would like to commend them for their unselfish and excellent assistance.

Fiscal Year 1982 will be a crucial year for the Service in our relationships with State and local law enforcement agencies. Budget restraints are forcing these agencies to utilize their limited funds in areas they consider critical to the successful accomplishment of their own missions.

Candidate and Nominee Protecton

The program for the protection of major Presidential candidates and nominees commenced on October 25, 1979, and ended with the inauguration of President Reagan on January 20, 1981. During the past fiscal year protection was afforded at the direction of the Department of the Treasury to two Presidential and two Vice Presidential Nominees and their spouses.

From November 5, 1980 to January 20, 1981, protection was provided to President-elect and Mrs. Reagan and Vice President-elect and Mrs. Bush. Protection provided during FY 1981 for the Candidate and Nominee program is indicated in the following table.

Presidential Nominees and Spouses of Nominees
Afforded Secret Service Protection
FY 1981

Protectee	Protection Commenced	Protection Termination
Nominees		
Former Gov. Ronald Reagan	Jul. 17, 1980	Jan. 20, 1981
Former Ambassador George Bush	Jul. 17, 1980	Jan. 20, 1981
Representative John Anderson	Jul. 17, 1980	Nov. 5, 1980
Governor Patrick Lucey	Aug. 27, 1980	Nov. 5, 1980
Spouses		
Mrs. Nancy Reagan	Aug. 11, 1980	Jan. 20, 1981
Mrs. Barbara Bush	Sep. 3, 1980	Jan. 20, 1981
Mrs. Keke Anderson	Aug. 22, 1980	Nov. 5, 1980
Mrs. Jean Lucey	Aug. 28, 1980	Nov. 5, 1980

Beginning in the early weeks of Fiscal Year 1983, the Service will start its efforts toward the 1984 Presidential Campaign. The experience of past campaigns has shown that the Service's participation is being required at earlier points in the campaign. During the past Campaign, our agents began protection of a candidate more than twelve months prior to the election. Because of procurement delays and the necessity for cross training of other Treasury Department agents, the funds that we are requesting in this submission are essential for the Service to be adequately prepared for the 1984 Presidential Campaign.

Protection of Foreign Heads of State or Government

The Secret Service is authorized by law to protect visiting Foreign Heads of State and Heads of Government, and at the direction of the President, other distinguished foreign visitors to the United States. The Law (P.L. 91-651) enacted

January 5, 1971) also authorizes the President to provide Secret Service protection to official representatives of the United States while performing special missions abroad.

During Fiscal Year 1981, the Service made preparations for 136 visiting foreign dignitaries. During these preparations, 28 dignitaries declined protection and 14 visits were cancelled. Actual physical protection was afforded to 94 dignitaries visiting the United States and its possessions. Among the visitors were Pope John Paul II and Foreign Minister Gromyko of the Soviet Union.

The Caribbean Conference in Miami, the UN-36 in New York, the International Monetary Fund Annual Meeting in Washington, and the dedication of the Ford Museum in Grand Rapids, Michigan, were handled successfully. During UN-36, which spanned Fiscal Years 1981 and 1982, 11 foreign dignitaries visited the United Nations General Assembly (seven dignitaries in September, Fiscal Year 1981, and four dignitaries in October, Fiscal Year 1982).

The protection of foreign heads of state or government continues to be an increasingly demanding responsibility of the Secret Service and a significant amount of resources is devoted to this program. During the first quarter of Fiscal Year 1982, the Service made preparations for sixty-three visiting foreign dignitaries.

Permanent Protection

During Fiscal Year 1981, the Secret Service provided permanent protection for the President and Mrs. Reagan, and, after November 13, 1980, their four children and one grandchild; Vice President and Mrs. Bush (as a Candidate, Vice President-elect, and as Vice President); former President Carter, Mrs. Carter, and Amy Carter (and three additional children and three grandchildren prior to the Inauguration); former Vice President and Mrs. Mondale (for a period of six months after the Inauguration); former Presidents Nixon and Ford and their spouses; former First Ladies Truman and Johnson, and Treasury Secretary Regan.

As a result of the change in administration, the Service had to establish two new protective divisions, the Former President Carter Protective Division and the Western Protective Division. The latter division is charged with providing protection to three of President Reagan's children and his grandchild. It also maintains security at the home of President and Mrs. Reagan.

U. S. Secret Service Uniformed Division

During Fiscal Year 1981, the Uniformed Division continued to carry out its responsibilities relative to protection of the Executive Mansion and grounds; protection of the Old Executive Office Building; protection of the President and members of his immediate family; protection of the foreign diplomatic missions located in the metropolitan area of the District of Columbia; the temporary official Vice Presidential residence and grounds in the District of Columbia; the Vice President and members of his immediate family; and foreign diplomatic missions located in other areas in the United States, its territories and possessions, as the President, on a case-by-case basis, may direct.

Significant events in which the White House Branch participated during Fiscal Year 1981 included: ten military arrival ceremonies; providing of security to the Iranian mission to the United Nations; providing security during the inauguration of the President; a complement of officers to supplement security at the ranch of President Reagan in California; protective support coverage during President Reagan's stay at George Washington University Hospital; and staffed the magnetometers installed at the White House Complex to screen visitors.

Significant achievements in the Foreign Missions Branch during FY 1981 include: security coverage for 25 visiting foreign dignitaries in residence at the Blair House; coverage for 434 Embassy receptions; provided security details during visits to Washington of Former Presidents Ford and Carter; performed 775 Counter Sniper assignments; and provided Canine Explosive Detection assistance on more than 4,000 occasions. In light of the assassination attempt on President Reagan, the Uniformed Division has taken on another role. During certain movements of the President, where security consideration require it, portable magnetometers accompany the Presidential detail to assist in insuring the President's security. Uniformed Division personnel have been trained to use this equipment and are now a vital part of many protective movements.

I think those who are familiar with the U. S. Secret Service Uniformed Divison will agree with me when I say they are, without question, the finest uniformed force of its kind in the world, and we are immensely proud of their high performance.

Treasury Security Force

The Treasury Security Force, a uniformed branch under the direction of the Secret Service, is charged with the responsibility of protecting life and property at the Main Treasury Building and the Treasury Annex in Washington, D.C., in addition to providing assistance in various protective assignments.

Field Offices

During Fiscal Year 1981, the personnel in field offices continued to devote much of their time to protective activities. In addition to providing protection during the last month of the Presidential Campaign and up through the Inauguration, these individuals were required to staff, on a temporary basis, details that were established as a result of the change in administration. Ever increasing protective requirements will demand the continued use of many investigative personnel in support of our protective mission.

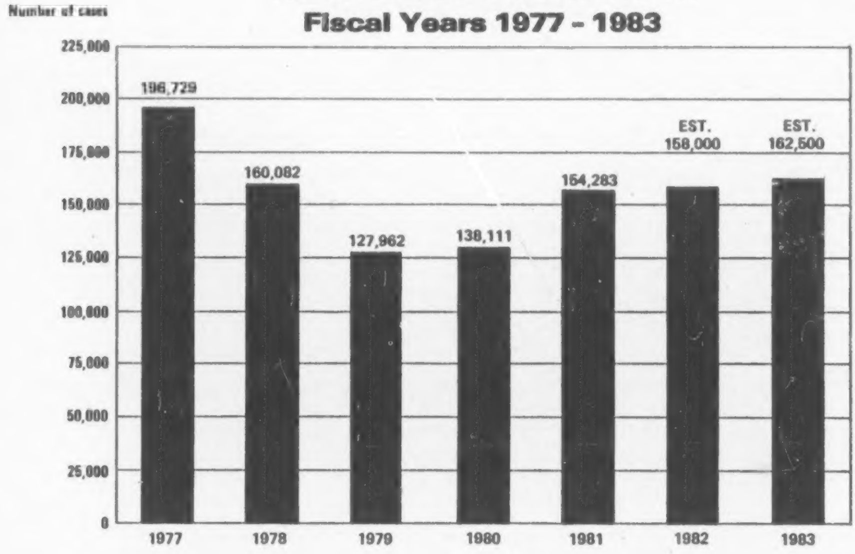
The role of our investigative personnel in our protective mission has never been fully recognized. In view of the attempted assassination of President Reagan and the substantial increase in protective intelligence cases handled by the Service during Fiscal Year 1981, our investigative personnel will continue to spend increasing amounts of time in protective activities, particularly those related to protective intelligence. During Fiscal Year 1981, our field personnel spent more than fifty percent of their time on protective activities, despite an increased investigative caseload and decreases in the number of personnel assigned to field offices on a permanent basis. Despite this heavy commitment of manpower to protection, the personnel in the field offices, through extra effort, managed to maintain a reasonable level of criminal investigation during Fiscal Year 1981.

Overall Investigative Caseload

Despite the increasing participation of investigative personnel in protective activities, our criminal investigative caseload continued to increase during Fiscal Year 1981. The 154,000 cases received for investigation represents a 12 percent increase over the 138,000 cases received in Fiscal Year 1980. The chart on the next page shows the total cases received for investigation over the past five years, as well as the most recent estimates of the number to be received in Fiscal Years 1982 and 1983 (Chart A).

Chart A

United States Secret Service
TOTAL CASES
RECEIVED FOR INVESTIGATION
Fiscal Years 1977 - 1983



In addition to the traditional investigative mission of the Service, we are entering a new area in which the investigative skills of our personnel will be utilized. The Service recently joined hands with the Department of Justice, the Federal Bureau of Investigation, the Department of Agriculture and the Postal Inspection Service in a task force effort to combat the fraud and forgery associated with the issuance of food coupons.

Counterfeiting Activities

During Fiscal Year 1981, $58.5 million in counterfeit currency was recovered by the U. S. Secret Service. Of this amount $51.6 million or 88 percent was seized before it could be passed on the American public. This total represents the second largest quantity of counterfeit currency ever seized by the Service. We are particularly proud of this figure as it came about in spite of the limited availability of investigative personnel as a substantial amount of their time was required for protective activities.

A total of $6.9 million or 12 percent of the counterfeit currency recovered was passed on the American public, reflecting a 25 percent increase in the dollar amount passed over the previous fiscal year. Despite the efforts of our agents, the number of notes passed during Fiscal Year 1981 increased by 21 percent.

During Fiscal Year 1981, the number of counterfeit $100 Federal Reserve Notes passed on the American public increased by some 42 percent over Fiscal Year 1980. At the same time, the $50 Federal Reserve Notes saw an increase of 9 percent, while $20 Federal Reserve Notes were increasing by 14 percent. The increased activity in the $100 counterfeit note is largely responsible for the 25 percent jump in the dollar loss.

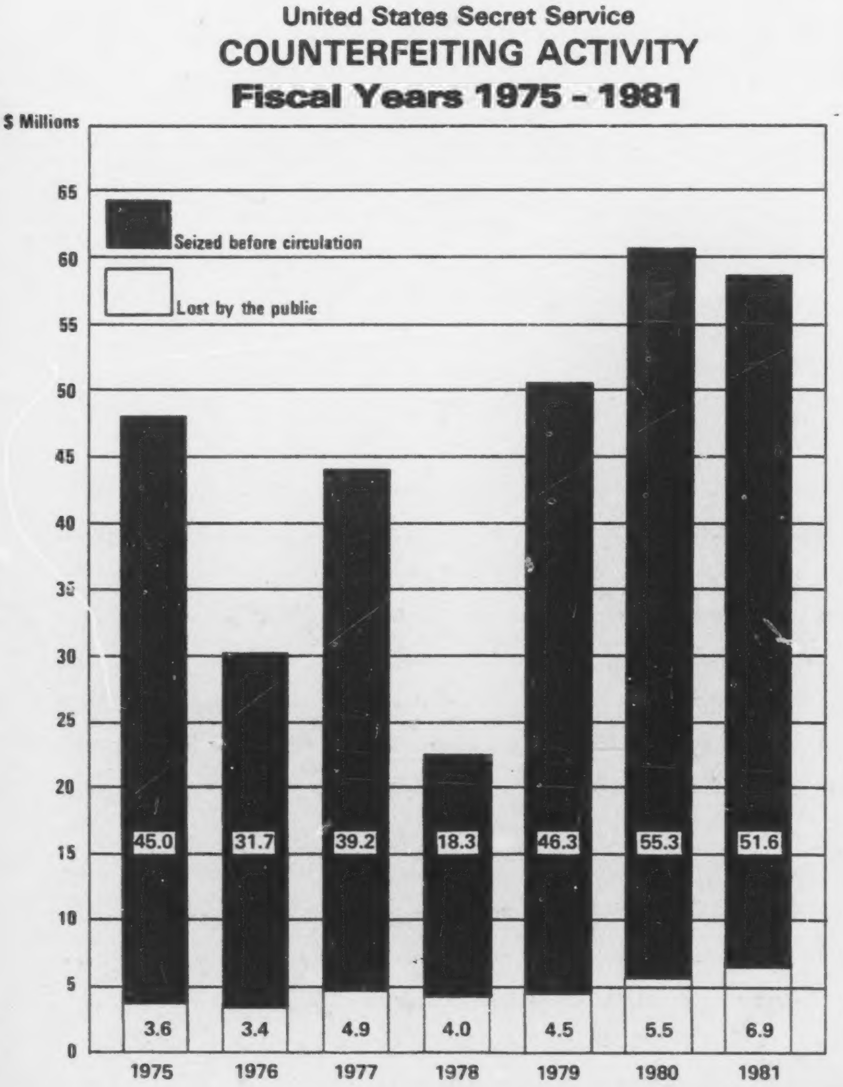
Just as the passer takes advantage of the now popular higher denomination notes, so does the manufacturer. It is less expensive and time consuming to produce $1 million in counterfeit $100 Federal Reserve Notes as compared to a like amount in counterfeit $20 Federal Reserve Notes (10,000 notes versus 50,000 notes).

During the past fiscal year, 83 counterfeit plants were suppressed within the United States by the Secret Service compared to 78 counterfeit plants suppressed during Fiscal Year 1980, an increase of 6 percent.

The initial statistical data available for the first two months of Fiscal Year 1982 show a loss to the public of $1,792,394 as compared to $953,216 for the first two months of Fiscal Year 1981. A total of $8.6 million has been seized versus $5.6 million from the same period last year. Twenty-eight counterfeit plants have been suppressed during the first quarter of Fiscal Year 1982 compared to 21 plant suppressions from the same period of the previous year. It is too early to predict counterfeiting trends for Fiscal Year 1982, however we do expect the number of new counterfeit issues to again increase during Fiscal Year 1982. There is no reason to believe the upward trend of counterfeiting will be reversed in the foreseeable future.

The following charts show for Fiscal Years 1975 through 1981 the dollar value of counterfeit notes seized before circulation, with the overall losses to the public and for Fiscal Year 1974 through 1981 the number and dollar value of the counterfeit notes passed (Charts B and C).

Chart B



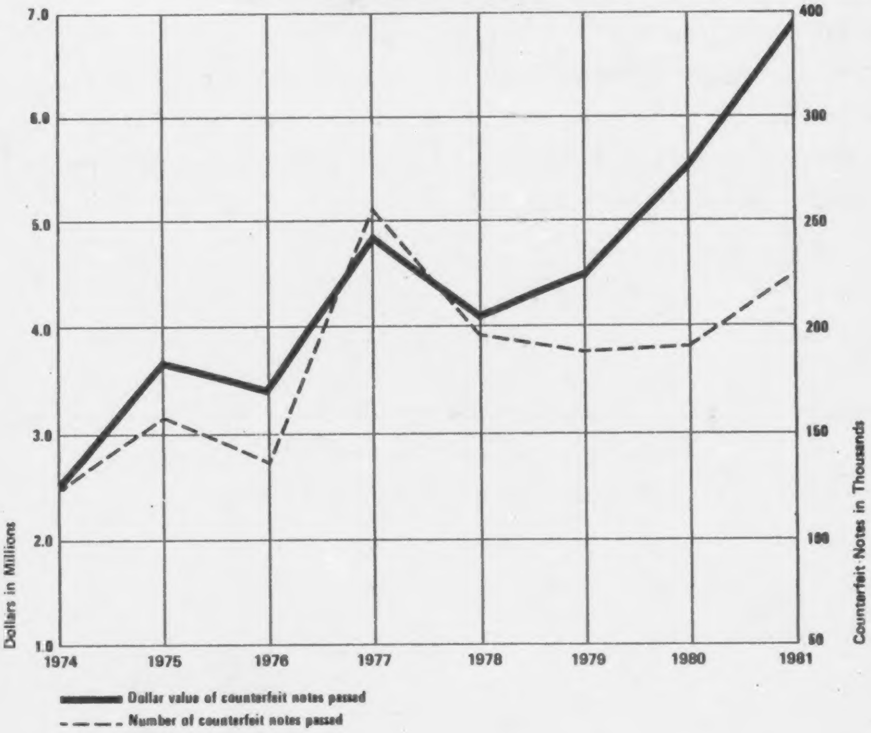
United States Secret Service
COUNTERFEITING ACTIVITY
Fiscal Years 1975 - 1981

United States Secret Service

COUNTERFEITING TRENDS

Fiscal Years 1974 - 1981

Chart C



Check Forgery

During Fiscal Year 1981, the Secret Service made 3,500 arrests in check forgery cases, a reduction of about 3 percent from the arrest activity in Fiscal Year 1980 of 3,600 arrests. During the past fiscal year, 64,847 checks were processed by the Secret Service, where each check was analyzed in terms of handwriting and endorsements, and compared with previously received checks. When similarities were noted, they were then "associated" with other check forgers. Through these efforts many of the forged checks were associated with either known or as yet unidentified forgers.

In February 1980, the Secret Service began production of check copies which was previously done by the Bureau of Government Financial Operations, using an Itek camera that makes glossy print. Procedures have been worked out with the Bureau of Government Financial Operations to increase the number of forgery referrals. Cases involving double payments are accepted without a claim form, provided the two checks bear dissimilar signatures.

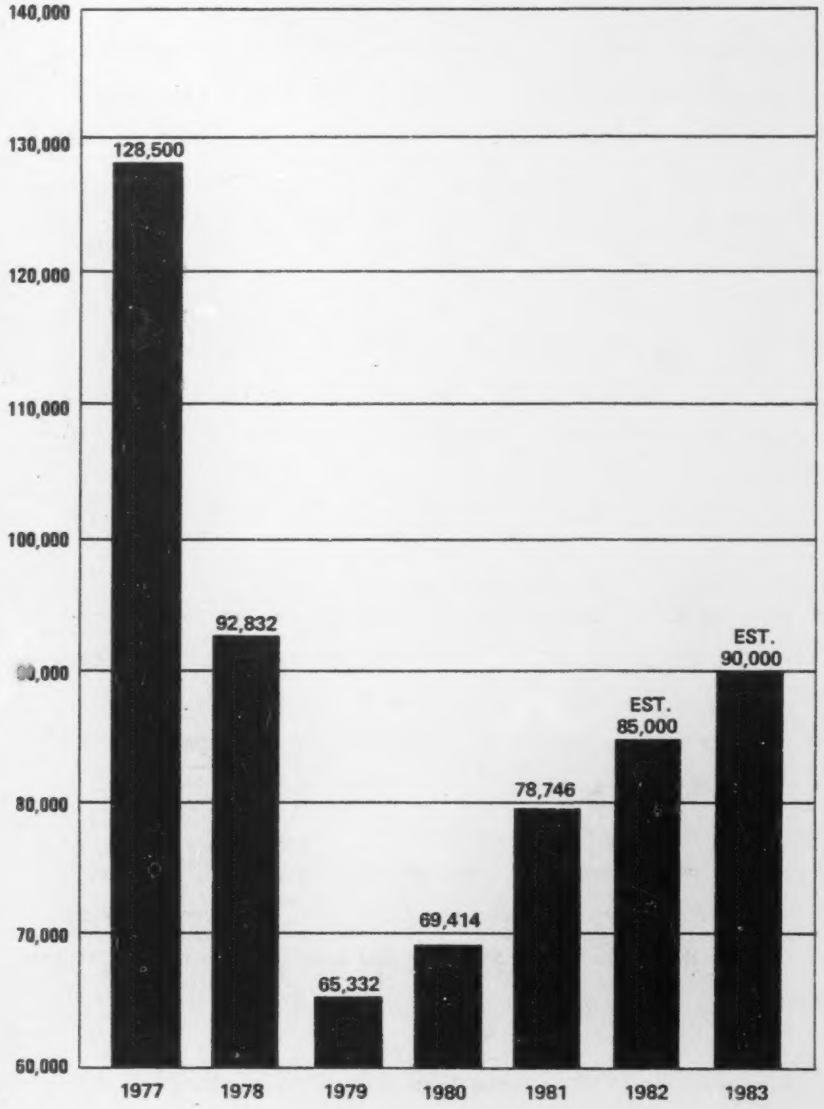
The following chart reflects the number of check cases received for investigation for Fiscal Years 1977 through 1981 with estimated numbers to be received in Fiscal Years 1982 and 1983 (Chart D).

Chart D

United States Secret Service

NUMBER OF FORGED CHECK CASES RECEIVED FOR INVESTIGATION

Fiscal Years 1977 - 1983



Bond Forgery

During Fiscal Year 1981, the total number of bond referral cases to the Service increased from about 8,000 cases in Fiscal Year 1980 to more than 10,000 cases in Fiscal Year 1981. More stolen bonds are being recovered before they are forged, thereby reducing the number of bonds which appear as forgery referrals at a later date. Arrests for the same period also increased from 91 to 110 by the end of Fiscal Year 1981.

During Fiscal Year 1981, 10,261 bonds were processed by the Secret Service, where each bond was analyzed in terms of handwriting and endorsements, and compared with previously received bonds. When similarities were noted they were then "associated" with other bond forgers. Through these efforts, a high percentage of the forged bonds were associated with either known or as yet unidentified forgers.

The following chart shows the number of bond forgery cases received for investigation during Fiscal Years 1977 through 1981 with the estimated number of cases for Fiscal Years 1982 and 1983 (Chart E).

Organized Crime

The Secret Service has continued to participate in the Organized Crime Program of the Department of Justice. Experienced Special Agents of this Service are assigned to the various strike forces around the country. The thirteen organized crime strike force representatives are provided additional support by the various field offices and headquarters as needed.

The Secret Service is an active member of the National Organized Crime Planning Council, which consists of members of Federal law enforcement agencies. The council visits the strike forces and gathers information concerning organized crime interests.

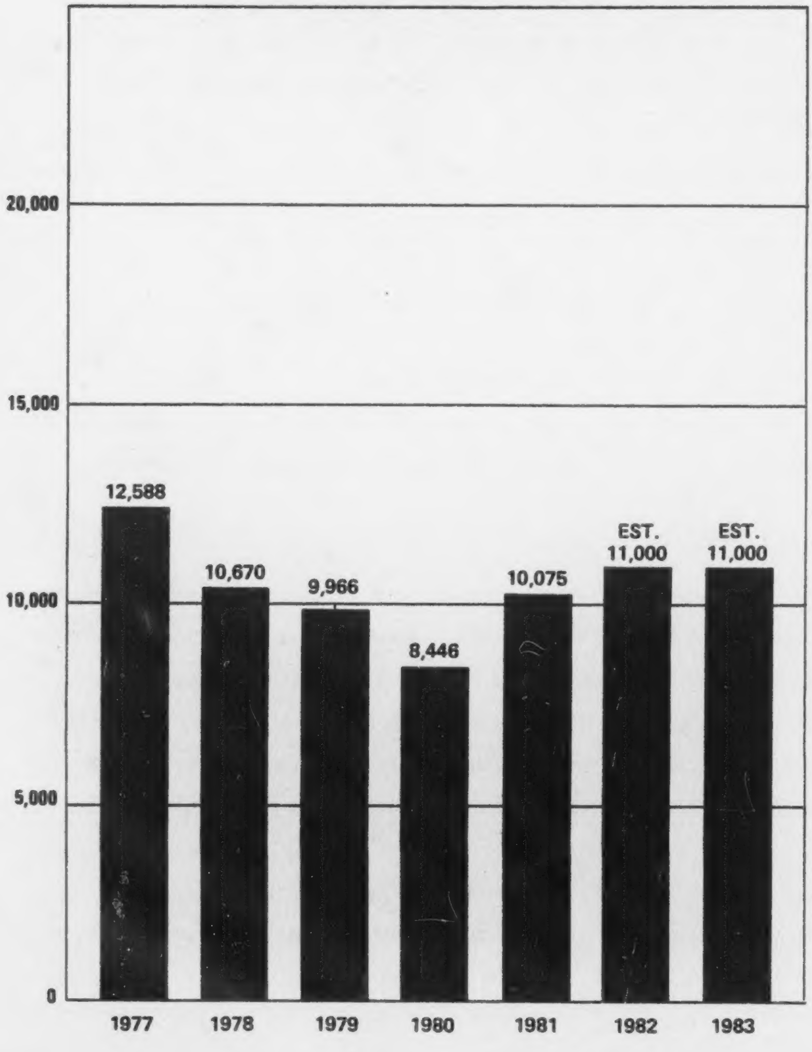
Visits by the council to the Strike Force Districts have renewed enthusiasm and interest in the program. Our strike force representatives report that inter-agency cooperation has improved and, as a result, information that

Chart E

United States Secret Service

NUMBER OF FORGED BOND CASES RECEIVED FOR INVESTIGATION

Fiscal Years 1977 - 1983



otherwise would not have been received has become available, proving beneficial to our investigative activities.

Equal Employment Opportunity

The Service has continued to pursue a vigorous program for the recruitment of qualified minority employees, as well as a program to prepare minority clerical employees for advancement into administrative and technical positions. As you know, the Service has a special need for minorities in the ranks of our Special Agents and uniformed officers. Accordingly, we have significant recruitment efforts for these categories of personnel.

Despite these efforts, the Service has not had the opportunity to expand its minority employment program in the Special Agent positions to the extent we would like because of the small number of available vacancies resulting from the relatively low turnover rates in this category of employee. Moreover, there continues to be keen competition for qualified minorities on the part of private industry.

Freedom of Information and Privacy Acts

During Fiscal Year 1981, the Service processed 916 FOI requests and 141 Privacy Act Requests. Additionally, the Office of Legal Counsel processed 52 FOI administrative appeals and actively assisted in the litigation of 8 judicial appeals.

I would like to point out at this time that since the passage of the Freedom of Information and Privacy Acts in 1974, the Service has spent from $300,000 to well in excess of $400,000 each year in responding to the numerous requests. Of this amount, less than one-half of one percent is potentially recoverable through FOI/Privacy Act billings. Moreover, less than twenty-five percent of this fraction is actually ever received from the individuals involved.

As a result, since 1975, the Service has continually written off uncollectable receivables and continues to bear the financial burden of these acts exclusively.

Protective Research

During the past fiscal year the Service has continued its efforts to improve methods for determining the potential danger of persons who make threats or who exhibit an unusual interest in persons whom we are authorized to protect. Our efforts in this area became all the more important in the aftermath of the attempted assassination of President Reagan in March, 1981. In the months following the attempt on President Reagan, the Service saw the most significant increase in protective intelligence cases in our history. This was reflected in the very substantial increase in the number of cases from Fiscal Year 1980 to Fiscal Year 1981.

In our effort to learn more about those who make threats to our protectees, the Institute of Medicine Workshop on Behavioral Research and the Secret Service was held under the auspices of the National Academy of Sciences (NAS). The purpose was to examine the "problems in assessing and managing dangerous behavior" and present recommendations/suggestions to the Service. This research effort is the largest single endeavor undertaken in relation to protective research since the mid-60's.

The Service, like other enforcement bodies, relies heavily on the public and other organizations for its intelligence data. We continue to feel the impact of the FOI and Privacy Acts, which has reduced the availability of this information. As a result, greater amounts of resources must be expended to ensure adequate security for protective functions.

Training

Should the anticipated merger with the Bureau of Alcohol, Tobacco and Firearms take place, the Office of Training will begin training those agents who are absorbed in the Service. The training will begin in FY 1982 and will continue through Fiscal Year 1983. Crosstraining of Secret Service agents will also begin in Fiscal Year 1982 and continue through Fiscal Year 1983. Additionally, training for the 1984 Presidential Campaign will begin in Fiscal Year 1983.

Summary

In summary, Mr. Chairman, the Secret Service has just experienced one of the most demanding periods in its history. The workload and protective responsibilities of the Service continued to expand and take on new dimensions this past year. The budget request before you is designed to permit the Service to continue carrying out our ongoing and new responsibilities. In this regard, I am grateful to this comittee for the understanding and support which you have given us over the years. I am equally proud of the performance of the men and women of the Secret Service who have performed so admirably in many difficult situations.

DIRECTOR SIMPSON'S SUMMARY INTRODUCTORY STATEMENT

Mr. SIMPSON. It is my pleasure as Director of the Secret Service to appear before this committee to present our annual appropriations request and present to the committee our report on activities during the current and past fiscal years.

TRIBUTE TO FORMER DIRECTOR KNIGHT

Before I introduce my associates that are here with me today, I would like to say a few words about my predecessor as Director of the Secret Service, H. Stuart Knight. During his tenure as Director, which spanned more than 8 years, Stu Knight led the Service through a period of unparalleled growth in our protective and investigative responsibilities. The dedication and professionalism so evident during his 35 years of service to the people of this country have helped to guide the men and women of the Secret Service in carrying out their responsibilities. We, at the Service, wish him the best in his retirement.

INTRODUCTION OF ASSOCIATES

With me today are the Deputy Director, Mr. Weinstein; Mr. Jerry Parr, Assistant Director for Protective Research; Mr. Frederick White, Jr., Assistant Director for Administration; and Mr. Joe Carlon, who is our Acting Deputy Assistant Director for Investigations.

ASSASSINATION ATTEMPT ON PRESIDENT REAGAN

It has been a little over 1 year since the assassination attempt on President Reagan. I think you will agree that the agents on duty at that time performed admirably and with little regard for their own personal safety. We at the Service are striving to minimize the chances of such an occurrence taking place again.

APPROPRIATION REQUEST

The appropriation request for fiscal year 1983 totals $294,407,000, an increase of $65,419,000 over the proposed authorized level for fiscal year 1982 of $228,988,000. This amount includes proposed supplemental funding in the amount of $5,855,000 for the comparability pay increases effective October 4, 1981. Included in our request for fiscal year 1983 are substantial reductions for nonrecurring expenses and $67,929,000 necessary to maintain current levels of operation. Also, $49,522,000 is related to the anticipated transfer, pending congressional approval, of functions from the Bureau of Alcohol, Tobacco and Firearms.

In addition, the Secret Service is requesting $161,000 for technical security support of our protectees, $3,800,000 for upgrading current communications equipment, $105,000 for ADP equipment, $305,000 as a result of increased protective requirements, $141,000 for additional equipment, $1,465,000 for maintenance of our vehicle fleet and $4,503,000 to prepare for the 1984 candidate and nominee program.

CONTINUED INCREASE IN ACTIVITIES

The past year has again shown a continuing increase in the activities of the Service. During fiscal year 1981, we assumed the added protective responsibility for another former President and his family, the former Vice President for a period of 6 months, and five Presidential family members. At the same time, the problems of worldwide terrorism required extraordinary measures with respect to the protection of foreign missions. Coupled with these activities, has been an overall increase in the protective assignments pertaining to our permanent and temporary protectees.

PROTECTIVE EFFORTS

Our protective responsibilities continue to receive our highest priority. In this regard, we are continuously evaluating new equipment and methods to assist us in providing a safe and secure environment to those persons whom we protect.

Our 1981 protective efforts were highlighted by the successful conclusion of a Presidential campaign which required candidate protection 5 months ahead of schedule and caused great sacrifices by our personnel. Significant demands were also made in connection with the security requirements made necessary by the 35th meeting of the U.N. General Assembly, the annual meeting of the International Monetary Fund and, of course, the events surrounding the assassination attempt on President Reagan. Additionally, problems associated with worldwide terrorism continued to require extra security measures in all areas of our protective activities.

The events of the past year exemplify our ability to accomplish our protective and investigative mandates. In this regard, I am sure that you realize the backbone of our protective and investigative efforts are the dedicated men and women of the Secret Service who have given so unselfishly of themselves in the furtherance of our missions. I would like the committee to know that I am proud of their performance.

CANDIDATE AND NOMINEE PROTECTION

The program for the protection of major Presidential candidates and nominees commenced on October 25, 1979 and ended with the inauguration of President Reagan on January 20, 1981. During fiscal year 1981, protection was afforded at the direction of the Department of the Treasury to two Presidential and two Vice Presidential nominees and their spouses. From November 5, 1980 to January 20, 1981, protection was provided to President-elect and Mrs. Reagan and Vice President-elect and Mrs. Bush.

U.S. SECRET SERVICE UNIFORMED DIVISION

During fiscal year 1981, the Uniformed Division continued to carry out its responsibilities relative to protection of the Executive Mansion and grounds; protection of the Old Executive Office Building; protection of the President and members of his immediate family; protection of the foreign diplomatic missions located in the metropolitan area of the District of Columbia; the official Vice Presidential residence and grounds in the District of Columbia; the Vice President and members of his immediate family; and foreign diplomatic missions located in other areas of the United States, its territories and possessions as the President, on a case-by-case basis, may direct.

FIELD OFFICES

During fiscal year 1981, the personnel in field offices continued to devote much of their time to protective activities. In addition to providing protection during the last month of the Presidential campaign and up through the inauguration, these individuals were required to staff, on a temporary basis, details that were established as a result of the change in administration. Ever increasing protective requirements will demand the continued use of many investigative personnel in support of our protective mission.

The role of our investigative personnel in our protective mission has never been fully recognized. In view of the attempted assassination of President Reagan and the substantial increase in protective intelligence cases handled by the Service during fiscal year 1981, our investigative personnel will continue to spend increasing amounts of time in protective activities, particularly those related to protective intelligence. During fiscal year 1981, our field personnel spent more than 50 percent of their time on protective activities, despite an increased investigative caseload and decreases in the number of personnel assigned to field offices on a permanent basis. Despite this heavy commitment of manpower to protection, the personnel in the field offices, through extra effort, managed to maintain a reasonable level of criminal investigation during fiscal year 1981.

EQUAL EMPLOYMENT OPPORTUNITY

The Service has continued to pursue a vigorous program for the recruitment of qualified minority employees, as well as a program to prepare minority clerical employees for advancement into administrative and technical positions. As you know, the Service has a special need for minorities in the ranks of our special agents and uniformed division.

Despite these efforts, the Service has not had the opportunity to expand its minority employment in the special agent positions to the extent we would like because of the small number of available vacancies resulting from the relatively low turnover rates in this category of employee. Moreover, there continues to be keen competition for qualified minorities on the part of private industry.

SUMMARY

In summary, Mr. Chairman, the Service has just experienced one of the most demanding periods in its history. The workload and protective responsibilities of the Service continued to expand and take on new dimensions this past year.

The budget request before you is designed to permit the Service to continue carrying out our ongoing and new responsibilities. In this regard, I am grateful to this committee for the understanding which you have given the Service over the years and look forward to your continued support.

Mr. Chairman, this concludes my statement. I will be pleased to answer any questions you or the other members of the committee may have.

SENATOR ABDNOR'S OPENING REMARKS

Senator ABDNOR. Well, thank you, Mr. Simpson.

I personally want to welcome you to this committee. I know it is your first appearance as the head of the Secret Service on behalf of the budget. I know there is no need to tell you the great respect and admiration that we have for the Secret Service.

I want you to know that anything this committee can do to help strengthen the causes that you work for, we certainly want to be there to help you. We just do not think this is the place to do any cutting, or try to save money. With all the responsibilities you have, as I have listened to you read off all the areas that you work in, and responsibilities that are assigned to the Secret Service, for instance, the record shows last year that your agents made over 5,000 arrests, I think, for forgery and counterfeiting. That is an impressive record.

Is that constantly on the upgrade, is counterfeiting getting to be a bigger and bigger thing?

COUNTERFEITING INVESTIGATIONS

Mr. SIMPSON. Yes, sir, it is increasing this year. However, we are still maintaining our 85 percent suppression record, and, Mr. Chairman, I would like to just go back a minute and thank this committee for their support in the past. They have been very, very generous, and very frankly, I do not know what we would have done without that support.

Senator ABDNOR. Thank you.

Mr. SIMPSON. In 1979 and 1980, Mr. Chairman, we also had over 5,000 arrests in counterfeiting and forgery. We are an excellent investigative organization. We have good, competent investigators, who I think, will show you that they can be equal to or better than anybody else in the Federal Government.

Senator ABDNOR. Well, we often think of counterfeiting just, unique with our America, the United States. But you are on the lookout for it all around the world, are you not? Is it on the increase in Europe and other parts of the country?

Mr. SIMPSON. Yes, sir, Mr. Chairman, it is. Matter of fact, if I could just digress for a minute.

The American greenback happens to be the most counterfeited currency in the entire world, and we have had the benefit of having an office in Paris, which liaisons with all of the foreign governments in that area, and in the Middle East and in Africa. Two months ago we were able, because of those connections, to suppress 15 million dollars' worth of counterfeit currency, which emanated from Italy.

On Friday of last week we assisted in the arrest of six people in Paris, and seized $600,000 in counterfeit U.S. currency. The mere fact that we are there, has given us a leg up in our investigations in those areas.

In that regard, we have just assigned an individual to Interpol headquarters. We feel this will be very, very significant, in coordinating counterfeit concerns. There are 133 countries that participate in Interpol, and this is our first opportunity to have any kind of a real role in the investigative area. Since 95 percent of the counterfeit inquiries received by Interpol concern counterfeit U.S. currency, they frequently call upon us for our expertise in this area.

FAR EAST FIELD OFFICE

Senator ABDNOR. I am sure you are, and with that in mind, and knowing all of the drugs that come from the Far East, it would seem to me that drugs and counterfeiting go hand-in-hand.

Do you ever anticipate opening an office in Hong Kong, or somewhere like that?

Mr. SIMPSON. We have in the past, Mr. Chairman, given a great deal of thought to opening an office in the Far East. We have submitted certain requests to the Treasury, who have been very good about passing them on to the State Department. Right now it is in a bit of a holding pattern, to try to figure out just exactly where this office would be best placed.

COLOMBIAN FIELD OFFICE

Senator ABDNOR. Well, I think the same could also be said about what is going on in both counterfeiting and currency and drugs down in Colombia. I really thought Mr. Van Kirk of our staff ought to go down and look at it as soon as possible, to facilitate the necessary arrangements to establish a permanent Secret Service office in Colombia.

Would you be opposed to that?

Mr. SIMPSON. No, sir. Mr. Van Kirk has an excellent knowledge of the situation in Bogota. He is a competent, qualified person in the area of law enforcement.

Senator ABDNOR. I realize you are the final decision on it. I know it is a real problem. I picked that up as I went along through customs.

Mr. SIMPSON. That is correct, sir. Twenty percent of the counterfeit money that comes to the United States originates in Colombia. We have tried to establish an office in Colombia, and Mr. Walker has been very supportive. We were turned down initially, and Mr. Walker has gone back to the State Department to ask them to reconsider. Hopefully, in the not too distant future, we will be able to establish an office there, and suppress the counterfeiting at its source.

As you very well know, sir, interdiction at the source is a great help. The contacts that we would establish there, and have established by virtue of some temporary assignments there, help keep the amount of counterfeit emanating from Colombia to a reasonable and controllable amount.

I think the mere presence there, in maintaining the contacts that you establish, are something that you cannot do on a temporary basis. You have to be there, you have to establish the rapport. Once the people have confidence that you are going to stay there, you will be effective in helping suppress that particular crime.

FREEDOM OF INFORMATION AND PRIVACY ACT

Senator ABDNOR. It sounds like it would be the sort of place—the proper place to go.

Do you have any trouble with the Freedom of Information Act?

Mr. SIMPSON. Yes, sir. But I believe there is legislation pending in the Congress which we feel, if passed, will help us to alleviate many of these problems. There needs to be some definition of what can and cannot be done, and I think you and the rest of the people in the Senate and the House are addressing yourselves to this particular problem.

Senator ABDNOR. I cannot say for the House. Do you think it has a good chance of passing in the form that you——

Mr. SIMPSON. I certainly hope so, sir.

Senator ABDNOR. If it does not, I know we would help you out.

Mr. SIMPSON. Mr. Chairman, Mr. Walker brought out a good point. That is, we, of course, do have a problem until such time as it is passed.

Senator ABDNOR. What would happen if we—until that is passed, did not provide money to carry out the Freedom of Information Act?

Ms. BEEBE. That would not prevent us from having to perform that responsibility. However, appropriation language could exempt the Secret Service from that provision, and that might be a temporary solution, until some such time as Congress could enact the appropriate revisions to the bill. Until we have a revision in the bill, the Secret Service has a problem that we would like to see corrective action.

Senator ABDNOR. I am glad to have that brought out.

You would find no objections if we take that?

Mr. SIMPSON. I am very glad that Madam Secretary is here.

ADDITIONAL CRIMINAL JURISDICTION

Senator ABDNOR. Thank you. That is a good point. I appreciate that very much.

Mr. Simpson, what could we do to help you acquire additional criminal jurisdiction for the Service? We all know that you have the best investigators in the world. But you have the white collar crime, the computer problems, the bank robberies.

Tell us what could you do, and how could we help?

Mr. SIMPSON. Mr. Chairman, I think you just articulated our feelings as far as our investigative process is concerned. We stand ready, willing, and able to participate in investigating any kind of white collar crime that you and the other Senators would decide to be in the best interests of the American public.

For instance, Senate bill 1924, the proposed false identification statute, which has to do with false identification social security cards. We are absolutely the best in the area of counterfeit currency, securities, and counterfeit identification. There is no one that can match our abilities. We would be more than willing to participate, to help in the fight against white collar crime.

Senator Abdnor. I do not know how much influence it would have, but you would not be particularly unhappy if this committee was to write a letter to the President, asking that, to give us a message for giving new authority to you for additional criminal jurisdiction?

Maybe you do not want to be caught answering that. I do not know.

Mr. Simpson. I will leave that to your discretion, sir.

Mr. Walker. Mr. Chairman, I can say, though, that the Treasury has consistently supported the expansion of criminal jurisdiction for the Secret Service, to correct what we perceive as a present imbalance between the protective function and the investigative function in the Service at the present time.

So that from my perspective, this would be an unobjectionable development.

BELTSVILLE TRAINING FACILITY

Senator Abdnor. Thank you very much. I think we will do that.

The training that you do at Beltsville probably saved the President's life last year. I had a chance to go there myself. It is most impressive.

I guess from that, I am bound and determined that your training facilities be as realistic as possible, that goes for the White House, the whole bit.

Would you promise to let me know if there is ever any interference in the plans to develop that?

Mr. Simpson. I would like to take the opportunity to thank you and the other committee members for being so supportive of the Beltsville facility.

Very frankly, if it had not been for the good graces of this committee, I do not know where we would be right now, as far as Beltsville is concerned. We appreciate that. We feel that we have to use simulation training in order to combat whatever the single assassin, or the terrorist group is going to come up with. They are training all the time, and their facilties are excellent, and we need to be equal or better.

Senator Abdnor. You bet. I was very impressed by the work that you do out there, the training that you have.

Well, Mr. Simpson, we thank you and the rest of you for coming. I want to ask you one question, because you have all those responsibilities, guarding the President, I guess the candidates coming on.

Can you carry out your responsibilities, and carry on if we appropriate $210 million for your use through fiscal 1983?

BUDGET AMENDMENT

Mr. Simpson. We, at the present time, Mr. Chairman, are submitting a budget amendment, thanks to Madam Secretary, and the people at the Treasury, and I think that we will be in relatively good shape when it arrives before the committee. I am sure you will give it adequate support.

CLOSING REMARKS

Senator ABDNOR. Then in closing, I am going to ask you one other favor. I hope that under your leadership the Service will be extremely careful to only protect people or places that are strictly authorized by law. This may require you to say no to officials who hold high political office. You can put the blame on this committee, because that is where it is going to fall, if we have anything to say about it.

Additionally, I want to make sure that there are no manipulations to the promotion rosters.

Finally, when aides are transferred, I want you to be sure that those transfers are strictly for the good of the Service, just as importantly, for the good of the agents being transferred. You have a very fine group, and that is one area that we do not want to see ever monkeyed with, but I know it is in good hands under your leadership.

Mr. SIMPSON. Mr. Chairman, to my knowledge the Secret Service has never manipulated a promotion roster, nor has it transferred any employee except in the best interest of the Service or for the career development of the employee concerned. I would like to assure you that this will not change under my leadership.

Senator ABDNOR. Thank you all for coming.

Mr. SIMPSON. I thank you.

[A brief recess was taken.]

BUREAU OF ALCOHOL, TOBACCO AND FIREARMS

STATEMENT OF STEPHEN E. HIGGINS, ACTING DIRECTOR

ACCOMPANIED BY:

CORA P. BEEBE, ASSISTANT SECRETARY, ADMINISTRATION

ARTHUR D. KALLEN, DIRECTOR, OFFICE OF BUDGET AND PROGRAM ANALYSIS

JOHN M. WALKER, JR., ASSISTANT SECRETARY, TREASURY DEPARTMENT, [ENFORCEMENT AND OPERATIONS]

ROBERT E. SANDERS, ASSISTANT DIRECTOR [CRIMINAL ENFORCEMENT]

ROBERT MAXWELL, DEPUTY ASSISTANT DIRECTOR [REGULATORY ENFORCEMENT]

INTRODUCTION OF ASSOCIATES

Senator ABDNOR. The subcommittee will come to order.

We have the Bureau of Alcohol, Tobacco and Firearms. We would call on Mr. Walker for his statement.

Mr. WALKER. Mr. Chairman, I welcome this opportunity to appear before you today in support of the fiscal year 1983 appropriations concerning the Bureau of Alcohol, Tobacco and Firearms. And particularly the functions of alcohol, tobacco and firearms, and explosives.

In attendance with me today are Stephen E. Higgins, who has just recently been appointed Acting Director of the Bureau of Alcohol, Tobacco and Firearms; key members of the Department; Cora Beebe, Assistant Secretary for Administration; and Arthur D. Kallen, Director of the Office of Budget and Program Analysis, Department of the Treasury.

Now, as I have testified previously to this committee, it has been the administration's plan to transfer in fiscal year 1982, subject to congressional review, the alcohol and tobacco functions and personnel to the U.S. Customs Service, and the firearms and explosives functions and personnel to the U.S. Secret Service.

For this reason, we did not prepare a separate BATF budget for fiscal year 1983, but in order to show the total funding for BATF programs in fiscal year 1983, I have extracted the funding requested by the U.S. Customs Service and the U.S. Secret Service for the BATF functions.

These levels of funding are necessary to carry out the BATF programs, regardless of their location. The fiscal year 1983 appropriations request that is contained within the budget of the U.S. Customs Service provides for 719 average positions and $31,464,000 for alcohol and tobacco functions. This funding level excludes a substantial portion of the resources required to carry out the Federal Alcohol Administration Act functions in fiscal year 1983. Similarly, the U.S. Secret Service fiscal year 1983 appropriations request includes a request for 1,731 average positions and $93,431,000 for firearms, explosives, and arson.

Thus, the total requested for all BATF functions—alcohol, tobacco, firearms, and explosives—is 2,450 average positions and $124,895,000. Included in this amount is $3,895,000 to fund the pay increase that became effective in October 1981.

The total resources requested for BATF functions in fiscal year 1983 were predicated on the assumption that the BATF would no longer operate as a separate Bureau and that the BATF functions would be transferred to the U.S. Customs Service and the U.S. Secret Service. Through this transfer, we would expect to have achieved significant efficiencies in savings by consolidation of common administrative and program support functions, such as the budget, personnel, planning, as well as laboratory, ADP, and other support functions. Should the reassignment of these ATF functions not occur as planned, the effective functioning of the Bureau at the levels contemplated by this transfer could not take place.

Mr. Chairman, this concludes my statement with regard to the fiscal year 1983 budget. I would like, however, to take a moment to read my brief statement regarding the supplemental which is pending now before the Congress.

1982 SUPPLEMENTAL REQUEST

I appreciate the opportunity to appear before you in support of the supplemental appropriations request of the Bureau of Alcohol, Tobacco and Firearms for fiscal year 1982. This request in the amount of $26,510,000 is composed of three components.

The first, in the amount of $22,346,000 is urgently needed in order to maintain the functioning of the Bureau's programs through the end of the fiscal year. The second in the amount of $1,479,000 is to fund ATF's participation in the administration's recent initiative to curtail crime and violence in southern Florida. In addition, the pay supplemental in the amount of $2,685,000 for the October 1981 pay raise is included.

It is crucial that this supplemental request be approved soon. The current continuing resolution provides funding for BATF at an annual rate of $115.7 million for fiscal year 1982. This funding level is substantially below that appropriated for fiscal year 1981,which provided 3,637 average positions and $149,850,000. The administration is requesting a fiscal year 1982 funding level of $142.2 million, which this supplemental would provide. This funding level is required regardless of the location of BATF's functions.

Should this funding not be provided, the impact would be severe. While we will make every effort to maintain essential programs; at this late date, there are few alternatives to make reductions of this magnitude, other than extensive furloughs.

Senator ABDNOR. Thank you.

Mr. WALKER. If I could just finish briefly I have a little more.

The Bureau estimates that if supplemental funding does not become available, 1,600 employees would have to be furloughed for a period of 3 months. The remaining work force of approximately 1,100 positions would be composed of 400 positions relating to the performance of the Federal Alcohol Administration Act—FAA, and those key positions essential to revenue activity and criminal enforcement. The Bureau furlough notices would have to be issued the beginning of June 1982 to take effect at the end of the month, in order to avoid a Deficiency Act violation.

This would mean that for 3 months there would be very little criminal enforcement of firearms, arson, explosives, cigarette smuggling, and illicit liquor cases. It also would mean that for 3 months the revenue activity related to the collection of the $8 billion in excise taxes would be seriously curtailed. The only item that then would be funded fully is the performance of the FAA Act.

It is my responsibility here to point out that this is truly an urgent supplemental request. Again let me say that additional funds are needed regardless of whether or not the Bureau's functions are transferred.

The second part of the supplemental request in the amount of $1,479,000 is to support the Bureau's participation in the Vice President's task force initiatives to curtail violent crime relating to drug smuggling in south Florida. The funds requested for this project will provide 52 agents and support personnel for a 6-month period. ATF will complement the efforts of other Federal, State, and local law enforcement agencies by working to reduce illegal firearms trafficking. Since major narcotics violators often use or traffic in firearms to support and protect their activities, it is essential that ATF receive the funds to allow the Bureau to make a successful contribution to the joint task force. Without this supplemental funding, ATF will not be able to meet its commitments to the Vice President's task force initiatives.

The U.S. Customs Service, as you heard earlier, Mr. Chairman, has already committed its resources and it is active in south Florida. Because of the budget uncertainties surrounding the ATF supplemental, it has not been prudent for us to place the ATF employees into south Florida until we can be sure that the supplemental will be passed by Congress.

Mr. Chairman, this concludes my introductory statements regarding the fiscal year 1982 appropriations request, and the fiscal year 1982 supplemental appropriations request, and the fiscal year 1983 general appropriations request.

We will be pleased to answer any questions you or other members of the committee may have.

Senator ABDNOR. Thank you, Mr. Walker.

I am sorry I interrupted you there a second ago.

Do you have copies of that, other than your own?

The reason I ask, I would like to have one of those around when the supplemental comes up. I can assure you that we are going to get you that supplemental for the appropriations.

Mr. WALKER. Very well, I will make the supplemental available.

Senator ABDNOR. It would be good information to have if I got myself into a heavy discussion on the Senate floor, for some reason or another. So I would appreciate it.

Mr. WALKER. We will make sure that you have one.

Senator ABDNOR. Thank you.

[The information follows:]

DEPARTMENT OF THE TREASURY

BUREAU OF ALCOHOL, TOBACCO AND FIREARMS

SALARIES AND EXPENSES

[AMENDED SUPPLEMENTAL NOW REQUESTED, EXISTING LEGISLATION]

To amend by the amount of $1,479,000, for Florida operations, the pending supplemental request of $22,346,000 for "Salaries and expenses, for the transfer of the alcohol and tobacco functions of the Bureau to the U.S. Customs Service and the firearms and explosives functions to the U.S. Secret Service", $23,825,000.

JUSTIFICATION FOR SUPPLEMENTAL REQUIREMENTS FISCAL YEAR 1982

In addition to the funds made available by the third continuing resolution (Public Law 97-92), the Bureau of Alcohol, Tobacco and Firearms requires a fiscal year 1982 supplemental appropriation in the amount of $23,825,000. This amount will provide for a planned reorganization which would transfer the statutory firearms and explosives enforcement functions and personnel to the Secret Service and the alcohol and tobacco revenue collection and regulatory functions and personnel to the Customs Service.

The reorganization will improve the effectiveness and efficiency of both Customs and the Secret Service. It will allow a significant savings in administrative costs and will provide a more effective utilization of personnel in the Department. Specifically, the special agents transferred to the Secret Service will insure the necessary protection levels for the President and others, provide the needed pool of trained agents required for the 1984 campaign, and provide sufficient agent personnel to combat major criminal trafficking in firearms.

The Bureau's options within the $115,654,000 level provided in the current continuing resolution are extremely limited. Essentially, the Bureau performs three basic functions: (1) collection of the alcohol and tobacco excise taxes, (2) regulation of the alcoholic beverage industry under the Federal Alcohol Administration Act of 1935, and (3) enforcement of Federal laws against such violent crimes as firearms trafficking, arson, and bombings.

Significant reductions in the excise tax collection activity are not possible without jeopardizing the more than $8 billion a year collected in alcohol and tobacco excise taxes. Over the last 2 years, ATF has undertaken a major change in the basic procedure it employs to safeguard these revenues. The all-in-bond procedure now in use is the least labor-intensive procedure yet developed, and ATF staffing has been reduced over the last 2 years to take this efficiency into account. Any further significant reductions in the area of revenue protection would be unwise.

Substantial reductions were planned in the regulatory functions, but these have been mandated by the Congress in earmarking $15 million in Public Law 97-92 to continue these functions at current levels. Therefore, termination of these functions in the last 4 months of the fiscal year will not be possible.

Consequently, in order to reduce ATF operations to accommodate the $115,654,000 provided by the continuing resolution, it would be necessary to substantially reduce ATF's criminal enforcement programs and its special agents, and to forego the planned transfer of special agents to the Secret Service.

Finally, this request includes $1,479,000 to fund ATF's plan for participating in the administration's recent initiative to curtail crime and violence in southern Florida. ATF has developed a 6-month joint task for plan designed to compliment the efforts of other Federal, State, and local law enforcement agencies to reduce firearms trafficking and to attack, through a great effort with the Drug Enforcement Administration, major narcotics violators who are using firearms to protect their illegal narcotics activities.

PROGRAM AND FINANCING

[In thousands of dollars]

Identification code: 20-1000-0-1-751	1982 pending supplemental	1982 proposed amendment	1982 revised supplemental
Program by activities:			
Direct program:			
Regulatory enforcement:			
Alcohol	6,802		6,802
Tobacco	116		116
Firearms	1,394		1,394
Explosives	630		630
Total, regulatory enforcement	8,942		8,942
Law enforcement:			
Alcohol	426		426
Tobacco	213		213
Firearms	9,323	1,479	10,802
Explosives	3,442		3,442
Total, law enforcement	13,404	1,479	14,883
Total, direct program	22,346	1,479	23,825
Budget authority:			
40.00 Appropriation	22,346	1,479	23,825
Relation of obligations to outlays:			
71.00 Obligations incurred, net	22,346	1,479	23,825
72.40 Obligated balance, start of year			
74.40 Obligated balance, end of year			
77.00 Adjustments in expired accounts			
90.00 Outlays, excluding pay raise supplementals	22,346	1,479	23,825
91.20 Outlays from civilian pay raise supplemental			

OBJECT CLASSIFICATION

[In thousands of dollars]

Identification code: 20-1000-0-1-751		1982 pending supplemental	1982 proposed amendment	1982 revised supplemental
Direct obligations:				
Personnel compensation:				
11.1	Permanent positions	13,709		13,709
11.3	Positions other than permanent			
11.5	Other personnel compensation	2,863	129	2,992
11.9	Total personnel compensation	16,752	129	16,701
Personnel benefits:				
12.1	Civilian	2,655		2,655
13.0	Benefits for former personnel			
21.0	Travel and transportation of persons	432	982	1,414
22.0	Transportation of things			
23.1	Standard level user charge	1,124	27	1,151
23.2	Communications, utilities, and other rent	703	5	708
24.0	Printing and reproodution	275		275
25.0	Other services	284	331	615
26.0	Supplies and materials	288	5	293
31.0	Equipment	13		13
42.0	Insurance claims and indemnities			
99.0	Total direct obligations	22,346	1,479	23,825

PERSONNEL SUMMARY

Identification code: 20-1000-0-1-751	1982 pending supplemental	1982 proposed amendment	1982 revised supplemental
Direct:			
Total number of full-time permanent positions	530		530
Total number of work-years:			
Full-time equivalent employment	487		487
Full-time equivalent of overtime and holiday hours	10		10
Average ES salary	$58,500		$58,500
Average GS grade	10.15		10.15
Average GS salary	$22,164		$22,164
Average salary of ungraded positions	$15,371		$15,371

CONSOLIDATED SUMMARY OF PERMANENT POSITIONS

DETAIL OF PERMANENT POSITIONS

20-1000-0-1-751	1982 pending supplemental	1982 proposed amendment	1982 revised supplemental
Direct program:			
ES-5			
ES-4	1		1
ES-3	1		1
ES-2			
ES-1			
Subtotal	2		2
GS/GM-15	10		10
GS/GM-14	21		21
GS/GM-13	73		73
GS-12	156		156
GS-11	84		84
GS-10			
GS-9	53		53
GS-8	2		2
GS-7	26		26
GS-6	24		24
GS-5	57		57
GS-4	14		14
GS-3	6		6
GS-2	2		2
Subtotal	528		528
Ungraded			
Total direct	530		530
Total permanent positions	530		530
Unfilled positions, end of year	-530		-530
Total permanent employment, end of year			

BUREAU OF ALCOHOL, TOBACCO AND FIREARMS—MARCH 1982

Budget appendix page	Heading	1982 pending supplemental	1982 proposed amendment	1982 revised supplemental
III-34/35	Salaries and expenses	$22,346,000	$1,479,000	$23,825,000

STATEMENT OF STEPHEN HIGGINS

Senator Abdnor. Mr. Higgins, we welcome you to the committee. This would be your first trip then under the circumstances.

I think you have a fine group, and we are looking forward to hearing from you.

Mr. Higgins. Yes, Mr. Chairman, it is my first appearance. I am pleased to have the opportunity to appear today in support of the fiscal year 1983 appropriation for the Bureau of Alcohol, Tobacco and Firearms. Also here today are key ATF members—Robert E. Sanders, Assistant Director—Criminal Enforcement; Barbara Pomeroy, Assistant Director—Administration; Robert Maxwell, Deputy Assistant Director—Regulatory Enforcement; and Paul Gentille, Chief, Financial Management Division.

As you can imagine, this past year has been a very difficult one for ATF. Combining the ongoing uncertainty of our future organizational status with rather significant budget reductions, the Bureau's productivity has been adversely affected.

Nevertheless, the Bureau with its many professional, dedicated employees continues to make important contributions to the administration's law enforcement and regulatory programs.

ENFORCEMENT ACTIVITIES

In the firearms enforcement area we are perfecting cases against top firearms' traffickers, outlaw motorcycle gang leaders, extremists, and others who violate this country's firearms laws in pursuit of their criminal objectives. We continued our joint and productive efforts with DEA to target selected DEA major narcotics traffickers who use or rely on firearms as an integral part of their criminal activities. During the past year we also successfully completed a number of cases against individuals involved in significant international arms smuggling.

In the explosives area, ATF continues to have impressive results in enforcing Federal statutes against criminal bombers. The innovative use of our four national response teams has yielded similarly impressive results in the arson program.

Our efforts in combatting the illicit production of moonshine and interstate trafficking in non-State tax paid cigarettes remain productive although our responsibility has been reduced and shifted to the States.

REGULATORY ACTIVITIES

On the regulatory side, ATF has continued a number of initiatives to reduce the burden on regulated industry members while at the same time realizing greater productivity from our field personnel.

For example, we have completed the plan for withdrawing on-premises officers from distilled spirits plants where they had been continuously assigned since the end of Prohibition. In place of this heavily labor-intensive program, we have adopted a post-audit approach to revenue collection which relies heavily on the use of professional auditors. While the hiring freeze has temporarily frustrated this transition we are confident that this approach will ultimately prove far more cost effective than the system it replaced.

Internationally, ATF has continued to provide a leadership role in seeking to insure that foreign regulatory obstacles do not restrict U.S. access to export markets. We do so through our work with the EEC, and other potential importers of U.S. alcoholic beverages. Furthermore, we have conducted a number of significant investigations of imported products to insure that U.S. consumers can purchase accurately labeled products.

In the firearms and explosives licensing area, we are presently implementing a program to insure that our limited resources are used in a more selective and productive way. Compliance inspections will be conducted in those cases where the greatest potential for significant noncompliance exists.

In summary, I have very briefly attempted to outline to the members of the committee the professional way this Bureau is attempting to carry out its very important programs in the face of uncertainty. Given the constraints of the past year, I believe our employees have done an outstanding job, and stand ready to do so in the future. My associates and I will be happy to answer any questions you or other members of the committee may have.

Thank you.

PREPARED STATEMENT

Senator ABDNOR. Well, thank you. We will include your statement at this point in the record.

[The statement follows:]

STATEMENT OF STEPHEN E. HIGGINS

I am pleased to have the opportunity to appear today in support of the fiscal year 1983 appropriation for the Bureau of Alcohol, Tobacco and Firearms. Also here today are key ATF members—Robert E. Sanders, Assistant Director (Criminal Enforcement); Barbara Pomeroy, Assistant Director (Administration); Robert Maxwell, Deputy Assistant Director (Regulatory Enforcement); and Paul Gentille, Chief of our Financial Management Division.

As you can imagine, this past year has been a very difficult one for ATF, combining the ongoing uncertainty of our future organizational status with rather significant budget reductions which has adversely affected program productivity.

Nevertheless, the Bureau with its many professional, dedicated employees continues to make important contributions to the administration's law enforcement and regulatory programs.

In the firearms enforcement area we are perfecting cases against top firearms traffickers, outlaw motorcycle gang leaders, extremists, and others who violate this country's firearms laws in pursuit of their criminal objectives. We continued our joint and productive efforts with DEA to target selected DEA major narcotics traffickers who use or rely on firearms as an integral part of their criminal activities. During the past year we also successfully completed a number of cases against individuals involved in significant international arms smuggling cases.

In the explosives area, ATF continues to have impressive results in enforcing Federal statutes against criminal bombers. Significantly in the arson area the innovative use of our four national response teams has yielded similarly impressive results.

Our efforts in combatting the illicit production of moonshine and interstate trafficking in non-State taxpaid cigarettes, although reduced as responsibility has shifted to the States, remain productive.

On the regulatory side, ATF has continued a number of initiatives to reduce the burden on regulated industry members while at the same time realizing greater productivity from our field personnel.

For example, we have completed the plan for withdrawing on-premises officers from distilled spirits plants where they had been continuously assigned since the end of Prohibition. In place of this heavily labor-intensive program, we have adopted a post-audit approach to revenue collection which relies heavily on the use of professional auditors. While the hiring freeze has temporarily frustrated this transition we are confident that this approach will ultimately prove far more cost effective than the system it replaced.

Internationally, ATF has continued to provide a leadership role in seeking to insure that foreign regulatory obstacles do not restrict U.S. access to export markets. We do so through our work with the EEC, and other potential importers of U.S. alcoholic beverages. Furthermore, we have conducted a number of significant investigations of imported products to insure that U.S. consumers can purchase accurately labeled products.

In the firearms and explosives licensing area, we are presently implementing a program to insure that our limited resources are used in a more selective and productive way. Compliance inspections will be conducted in those cases where the greatest potential for significant noncompliance exists.

In summary, I have very briefly attempted to outline to the members of the committee the professional way this Bureau is attempting to carry out its very important programs in the face of uncertainty. Given the constraints of the past year, I believe our employees have done an outstanding job, and stand ready to do so in the future. My associates and I will be happy to answer any questions you or other members of the committee may have.

SUPPLEMENTAL BUDGET

Senator ABDNOR. Now, the budget, Mr. Walker referred to that 1983 budget, includes the allowance that the supplement that goes into the 1982, right? You built the 1983 on the increases for the 1982?

Mr. WALKER. Yes; the 1983 budget was premised upon there being initially $138 million in the fiscal year 1982 budget. Plans were made for the 1982 budget of $138 million; 1983 budget of $121 million. That was all consistent with the same resource levels.

As the budgets were prepared, the supplemental for fiscal year 1982 was designed to bring us from $115.7 million, which is in the continuing resolution, up to $138 million. There have been additional increases since that time, which is the pay raise, and also the south Florida item.

SOUTH FLORIDA SUPPLEMENTAL

Senator ABDNOR. The south Florida, that would mean you had 50 new agents, you said?

Mr. HIGGINS. No; we would use existing personnel. The supplemental includes the travel, transportation, and per diem costs of transferring our agents to south Florida on a temporary detail. It is not for hiring new personnel.

Senator ABDNOR. Do you think there is any need for additional agents?

Mr. HIGGINS. In south Florida?

Senator ABDNOR. Yes.

Mr. HIGGINS. The Vice President, in his speech to the Miami citizens against crime, announced that 45 ATF agents would be detailed into south Florida. We have not been able to comply with that commitment by the Vice President, because of the budget uncertainties that we have at the present time. We would like to do so and we intend to when we are assured that our supplemental will be approved.

The people of south Florida are seriously afflicted by the flow of handguns, narcotics traffic, and the use of machine guns in their community. There is an abundance of work for many agents, whether they be State, local, or Federal, in the fight against the use and trafficking of handguns by narcotics traffickers, as well as the trafficking in insidious machine guns which is currently underway in south Florida.

REVENUE PROTECTION

Senator ABDNOR. Mr. Higgins, you were mentioning withdrawing on-premise officers. The Tax Revision Act of 1979 was enacted, BATF has been reducing the day to day on-premise supervision in the plants, and placing greater reliance on audits, to insure that the proper excise taxes are paid. A regulatory audit staff has been established using GS-510 series personnel to supplement the ATF inspection of audits.

Also, training programs have been comparing inspectors to auditors. How many on-premise inspectors are there remaining at the distilled spirits plants, and what is the timetable for removing them?

Mr. HIGGINS. We have effectively eliminated or removed all the on-premise supervisors. We have one or two distilled spirits plants, that because of special problems, we still provide some supervision on a rotational basis. But for all intents and purposes, we have removed all the inspectors on-premises, and have eliminated that job category.

Senator ABDNOR. Well, have these positions been eliminated, or are they being used in other areas?

Mr. HIGGINS. Part of the positions have been eliminated. Others have been, through retraining, used to increase the audit staff. Instead of now having people physically assigned to the plants to be sure that the taxes are paid, auditors come in on a post-audit basis to insure that the taxes were properly paid. So we have replaced the personnel who were lost through that program with auditors.

We expect by the end of this year, and the first part of next year, to realize about a 132 staffyear savings in this program.

Senator ABDNOR. How many series 1854 inspectors, and the series 510 auditor positions were dedicated to protecting existing tax revenues in fiscal 1981, and how many of these positions are still included in fiscal year 1982 and 1983 budget? Can you give us that?

Mr. HIGGINS. In 1981, we had approximately 311, inspectors and auditors, that is 1854's and 510's. I am not sure how that breaks down between the two categories.

In 1982, we had estimated that 330 staffyears would be used in providing excise tax protection. At the present time, we have less than that on board because of very heavy attrition. But that is the number that we had devoted to that program.

Senator ABDNOR. Do you need to hold that number, or do you think you can get along with it?

Mr. HIGGINS. In the budget request, we are asking for more positions than that. However, because of the hiring freeze and the uncertainties, we have not been able to replace these positions. We are now down to 266 inspectors that we can still devote to the program, because we have other mandated responsibilities, such as, FAA Act enforcement, and other priority programs.

Senator ABDNOR. So you really could not replace the extra you have lost.

How many inspections and audits were conducted in fiscal year 1981? Are you pursuing the same, or more in 1982 and 1983?

Mr. HIGGINS. In the alcohol program, we conducted a total of 8,200 inspections and 18 individual audits, which were performed by 510 auditors.

In the tobacco program, we conducted a total of 364 inspections and audits in 1981. In 1982, we were anticipating doing somewhat less in the consumer protection and qualification areas, and approximately 8 percent more inspections in the revenue protection area.

Unfortunately, I am sure that with our current staffing, we will not complete the number that we projected. I can provide additional information about those specifics, if you would like.

[The information follows:]

EFFECTS OF ATTRITION ON REGULATORY ACTIVITIES

Attrition has seriously eroded our capacity to complete alcohol and tobacco budget objectives for fiscal year 1982. Since October 1981, we have experienced a severe drain on available staffing. The loss of personnel has impacted all program areas. This effect will continue into fiscal year 1983. To compensate for the losses, we are concentrating our efforts on the inspections which cover the greatest portion of the revenue. Also, we are restructuring the scope of other activities in order to conserve resources for mandated programs. The following depicts the number of budgeted inspections/audits versus the number that are expected to be completed due to attrition.

	Budgeted completions fiscal year 1982	Expected completions fiscal year 1982	Percentage variance from budget
Alcohol:			
Qualification inspections	2,922	2,400	-18
Consumer protection inspections	1,360	1,050	-23
Revenue protection inspections	2,712	1,550	-43
Revenue protection audits	24	10	-58
Tobacco:			
Qualification inspections	82	84	2
Revenue protection inspections	391	367	-6
Firearms:			
Qualification inspections	960	[1] 1,970	[1] 105
Compliance inspections	5,674	1,520	-73
Explosives:			
Qualification inspections	929	900	-3
Compliance inspections	3,479	520	-85

[1] The number of firearms application inspections has increased because we are including applications which are perfected by telephone rather than on-site investigation. The number of staff-years expended in this area will be about 54 percent of the budget level.

The decline in resources is exacerbated by an unexpectedly large increase in the number of licensees in the firearms program. We had projected a growth of 10 percent but have experienced a 22-percent growth. We have already exceeded the number of licensees expected. We now believe 220,000 licenses will be issued by the end of fiscal year 1982.

CLOSING REMARKS

Senator ABDNOR. Yes; to be able to fill the additional positions, if we give you the additional positions that you have lost, you would be able to fulfill your target, is that it?

Mr. HIGGINS. It would be a supplemental if it were approved. But yes, we could fulfill our target.

Senator ABDNOR. Very well. I do not think I have any additional questions.

We thank you very much for your presence here.

Again, you know we are always willing and ready to be of assistance to you. I know you have a monumental task in your Department, and Agency, too.

We thank you very much.

The next agency is the Federal Law Enforcement Training Center.

[A brief recess was taken.]

FEDERAL LAW ENFORCEMENT TRAINING CENTER

STATEMENT OF DAVID W. McKINLEY, ACTING DIRECTOR

ACCOMPANIED BY:

CORA P. BEEBE, ASSISTANT SECRETARY, ADMINISTRATION
JOHN M. WALKER, JR., ASSISTANT SECRETARY, TREASURY DEPARTMENT. [ENFORCEMENT AND OPERATIONS]
WILLIAM M. KELSO, ASSISTANT DIRECTOR, RESOURCE MANAGEMENT, FEDERAL LAW ENFORCEMENT TRAINING CENTER
JOHN C. DOOHER, ASSISTANT DIRECTOR, WASHINGTON OFFICE, FEDERAL LAW ENFORCEMENT TRAINING CENTER
ARTHUR D. KALLEN, DIRECTOR, OFFICE OF BUDGET AND PROGRAM ANALYSIS, DEPARTMENT OF THE TREASURY

INTRODUCTION OF ASSOCIATES

Senator ABDNOR. We welcome you to the committee, Mr. Walker and Mr. McKinley.

Mr. WALKER. Mr. Chairman and members of this committee, it is with pleasure that I appear before you in connection with the Federal Law Enforcement Training Center's appropriation request for fiscal year 1983.

In attendance with me today are Cora Beebe, Assistant Secretary for Administration, Department of the Treasury; David W. McKinley, the Acting Director of the Federal Law Enforcement Training Center; key members of his staff, and Arthur D. Kallen, Director of the Office of Budget and Program Analysis, Department of the Treasury.

Mr. Chairman, since its creation in 1970, under a memorandum of understanding with participating organizations, the Center has become the principle source of training for Federal law enforcement activities. The Treasury Department serves as lead agency for the administration of the Center's operation. An interagency board of directors provides the coordination, approval, and direction for training programs and policies.

CENTER BACKGROUND

During its formative years the Center conducted its operations in limited temporary quarters in Washington, D.C. But as a result of congressional foresight and action the Center relocated to its permanent site at Glynco, Ga. in 1975.

Throughout the previous decade of solid achievement, the Center's efforts were concentrated on developing credibility within the law enforcement community for a consolidated, uniform approach to training. The nucleus of a professional and instructional staff was formed. Programs for multiple agencies were implemented, both for entry level police and investigative personnel. And construction has been completed on a centralized modern facility sufficient to meet training requirements.

As the Center's capabilities increased and became better recognized, law enforcement agencies have continued to close down individual, less efficient facilities, in favor of consolidation into Glynco.

NEW PARTICIPATING ORGANIZATIONS

In fiscal year 1982, two major organizations, the Drug Enforcement Administration and the Bureau of Prisons completed their relocation into the Center. Their active participation will add a significant new dimension to the improved quality of training and cooperation among Federal agencies. This brings the total of participating organizations of the Federal Law Enforcement Training Center to 48.

APPROPRIATION REQUEST

The pending appropriation request for fiscal year 1983 is $12,913,000, an increase of $595,000 over the fiscal year 1982 proposed authorization level of $12,318,000, which includes the pending pay supplemental.

The additional moneys requested are needed to provide for uncontrollable increases in costs, such as travel, which is, of course, a highly important item for a facility located in southeast Georgia.

This request reflects a very stringent appropriation level. However, we believe that the amount being requested will permit the Center to carry out most of its primary mission related to basic training and facility operations. It is expected that other training needs involving advanced, in-service, refresher, and specialized programs, known as AIRS, will be accomplished on a reimbursable basis.

The Center's reduced budget requirements are in concert with the administration's position on restraining governmental expenditures.

NEW TRAINING ACTIVITY

Although Mr. McKinley will go into more specific detail on the Center's program, I would like to emphasize an area in which the Center is making a change from its previous traditional pattern of training activity. This involves the presentation of short, concentrated training courses by Center staff at locations other than Glynco. These export training efforts are being provided on a fully reimbursable basis, in subject matter areas, which owing to their short duration, are more cost effective to provide at strategically based sites. To date this method has been utilized several times, including a basic investigative skills program for the Environmental Protection Agency technical inspection personnel.

We are also in the final planning stages for a procurement and contract fraud investigation module for Inspectors General employees and a criminalistic course for the Department of Army investigators.

Finally, Mr. Chairman, I would like to report to this committee that the last major facility to be constructed under the GSA-Treasury master plan construction program was recently placed into full operation. This brings to successful conclusion the building and renovation program begun in 1975. There remain only a few claims to be settled. However, it does appear that this program will be completed well within the original appropriation authorization of $28 million.

I will now ask Mr. McKinley to provide his opening remarks, and then we will be pleased to respond to your questions.

Senator ABDNOR. Thank you.

Mr. McKinley?

Mr. MCKINLEY. Thank you, Mr. Chairman.

My staff and I are pleased to be here today to report on the operations of the Federal Law Enforcement Training Center and to support our appropriation request for fiscal year 1983.

PREPARED STATEMENT

I have a statement that I would like to submit for the record, and would be pleased to summarize it at this time.

Senator ABDNOR. Thank you. That will be fine, and your entire statement will be made a part of the permanent record.

Go right ahead.

[The statement follows:]

STATEMENT OF DAVID W. MCKINLEY

Mr. Chairman and Members of the Committee, I am pleased to be here today to report on the operations of the Federal Law Enforcement Training Center and to support our appropriation request for Fiscal Year 1983.

At this time, I would like to introduce the representatives of the Center who have accompanied me: William M. Kelso, Assistant Director for Resource Management, and John C. Dooher, Assistant Director for the Washington Office.

Assistant Secretary Walker has mentioned, that prior to the creation of the Center many Federal agencies had neither formal programs nor adequate facilities to carry out essential enforcement training. Duplication of effort, high overhead and costly, inefficient facilities, which previously served the interests of one agency exclusively, has given way to a single, residential training site which is able to adapt to multiple needs with substantial reductions in costs. The Center's constituent agencies now realize that collectively they can provide a higher level of instruction by pooling their resources; achieve more effective utilization of a complete training facility at a reduced cost; and derive other advantages which improve communication and understanding in the law enforcement area.

Recent Activities and Current Status

As Assistant Secretary Walker has indicated, the Center has expanded to include the Bureau of Prisons as the 48th participating organization. The transfer of training operations of the Drug Enforcement Administration from Washington, D. C. to the Center was also completed during the past year. I am happy to report that both organizations have indicated they are pleased with the results of their move and are optimistic about the future of their training activities at the Center.

In another area, the Center conducted an experimental program in the export of training to field locations with geographical concentrations of personnel. In this particular case, a two-week program in investigative techniques was presented to Environmental Protection Agency technical personnel in Denver. This program proved to be successful from both qualitative and cost-effective standpoints. Additional innovations will be implemented as an alternative to residential programs.

During the remainder of my remarks, I will further amplify the trends and other specific accomplishments we believe will be of interest to you.

Salaries and Expenses

The Fiscal Year 1983 budget request for the Federal Law Enforcement Training Center is $12,913,000. This represents an increase of $595,000 over the Fiscal Year 1982 proposed authorized level of $12,318,000 which includes the pending pay supplemental. This level provides funds necessary to maintain current levels.

The Fiscal Year 1983 budget request includes funds to train 2,370 students in basic programs, representing 14,300 student weeks, with an Average Resident Student Population (ARSP) of 275. In addition, based on the information currently available from the participating organizations, the Center will also conduct a substantial amount of training on a reimbursable basis. Combined, this training reflects an ARSP of approximately 900. Based on previous years' experience, we anticipate these projections will be adjusted consistent with each participating organization's budget authorization.

Approximately 70 percent of training will be devoted to basic and follow-on basic programs. The remaining 30 percent of training will be devoted to AIRS programs. The Center will be prepared to accommodate any additional training needed by the participating organizations above the funded level on a reimbursable basis.

Plant Operations

The Center consists of 1,500 acres and over 200 buildings with 1.4 million square feet of space.

As Assistant Secretary Walker has indicated, the indoor firing range building, with 96 firing points divided into eight separate ranges, became operational this past January. The acceptance of this building completes the Master Plan permanent construction program under the auspices of the General Services Administration.

A $1.3-million contract was recently awarded to renovate centrally located underutilized or unoccupied buildings in order to permanently house participating organization personnel and Center staff. Plant operations staff has received extensive specialized training in order to insure continuous operation of specialized facilities such as the indoor firing range, new training building, a solar energy system in the Physical Specialties complex, and the Driver Specialties training facilities.

I would now like to comment briefly about the types of training which are conducted at the Center.

Basic Training

The basic training programs for investigators and officers are conducted by the Center and range in length from 5 to 17 weeks. During Fiscal Year 1981, a total of 1,821 students graduated from all basic programs. The Center's training staff and faculty continue to improve existing programs in order to meet changing training requirements.

Criminal Investigator Training - During Fiscal Year 1981, 411 students were trained in the basic 7-week Criminal Investigator program. In Fiscal Year 1982, we will train 464 students, and in Fiscal Year 1983, we project 714 students.

Police Training - The basic training programs conducted for uniformed police officers graduated 1,410 students during Fiscal Year 1981 and we project 2,322 students will graduate from the nine different police programs during Fiscal Year 1982. In Fiscal Year 1983, we will train an estimated 2,384 police recruits.

Follow-On Basic - Several organizations conduct additional agency specific training for their entry level employees. This training is provided after an employee has completed a basic program, but during the first year of a probationary period. During Fiscal Year 1983, 2,106 students will receive follow-on basic training.

Advanced, In-Service, Refresher & Specialized (AIRS) - The second major category of training conducted at the Center is Advanced, In-Service, Refresher and Specialized programs. These programs are conducted by both the Center (CAIRS) and the participating organizations (AAIRS).

Center AIRS (CAIRS) - The Center conducts advanced and specialized training for journeyman investigators and police officers in subjects that are common to two or more organizations. During Fiscal Year 1981, these CAIRS programs accounted for 811 graduates. In Fiscal Year 1982, 1,466 students are estimated, and in Fiscal Year 1983, projections are for 1,006 students. The major percentage of these students will attend the two-week White Collar Crime Seminar which was established in 1979. Through the end of 1981, 1,498 students have graduated from this highly successful program.

Our major developmental efforts in CAIRS training during Fiscal Year 1983 will be directed toward providing training in the investigation of procurement and contract fraud. The need for training in this area is highlighted by the additional emphasis now being placed on the investigation and prosecution of procurement and contract fraud and other financial crimes. Also, work is continuing on specialized courses for Wildfire Investigation, Antiquities Theft, Marine Law Enforcement, Basic Officer Safety and Survival, and Escape and Evasive Driving Techniques.

Agency AIRS (AAIRS) - The Center offers each participating organization the opportunity to develop and conduct advanced or specialized training to meet the specific needs of its personnel. This training is conducted by the organization's instructional staff, with assistance provided by Center faculty as requested. All administrative and logistical support for this training is provided by the Center. This unique arrangement allows participating organizations to meet their individual training requirements and, at the same time, benefit from improved facilities and the substantial cost savings available through consolidation. In Fiscal Year 1981, 4,797 students received AAIRS training; 7,253 will be trained in Fiscal Year 1982 and 6,488 in 1983.

Training Support

The Center continues to refine its training support activities in order to meet the diversified support requirements of the expanding training programs. The initial development of a computerized scheduling program was begun in Fiscal Year 1981, and we hope to implement the program at the beginning of Fiscal Year 1983. Word processing equipment has recently been purchased and is now being installed to take advantage of the available technology and allow an increase in administrative productivity during this period of declining resources.

A device has been purchased and installed which records data related to telephone calls made over the Federal Telecommunications System (FTS), and provides the information to allow for the reimbursement of FTS expenses by other organizations. The emphasis on contracting out for services which can be provided by the private sector is continuing, with several A-76 studies now in progress.

Major Maintenance

In Fiscal Year 1979, the House and Senate Appropriations Committees instructed the Center to use $10.2 million of previously appropriated construction funds for on-going requirements for repairs, alterations, minor construction and equipment for facilities at Glynco. Through September 30, 1981, the Center had obligated approximately $2.9 million for these purposes. Additional funds of approximately $6.4 million will be obligated in Fiscal Years 1982 and 1983. After the $10.2 million has been expended, it will once again be necessary for the Center to rely on the Salaries and Expenses appropriation for these requirements.

We support the efforts and interests of the Administration and this Committee to reduce Government expenditures. We believe that substantial savings are already being realized because of the low cost per student unit of the Center's operation. Our budget request reflects our shared concern for fiscal restraint. Specifically, our FY 1983 request is less than a seven percent increase over FY 1982 and contains decreased resources for staff and non-recurring costs.

Mr. Chairman and members of the Committee, it has been a pleasure to be here today to present the Fiscal Year 1983 appropriation request for the Federal Law Enforcement Training Center. We recognize that the success we have enjoyed in our effort to provide high quality training at the lowest possible cost has been made possible by your support and the excellent cooperation of the many law enforcement organizations we serve. We look forward to your continued support and guidance as we face the challenges that lie ahead.

My colleagues and I are available to answer any questions you may have concerning this appropriation request.

INTRODUCTION OF ASSOCIATES

Mr. McKINLEY. First, I would like to introduce the representatives of the Center who have accompanied me today. To my right, William M. Kelso, who is the Assistant Director, Resource Management; and John Dooher, Assistant Director for our Washington Office.

BUDGET REQUEST

The fiscal year 1983 budget request for the Federal Law Enforcement Training Center is $12,913,000. This represents an increase of $595,000 over the fiscal year 1982 proposed authorized level of $12,318,000. This level provides funds necessary to maintain current levels.

Our budget request includes funds to train 2,370 students in basic programs, representing 14,300 student weeks, with an average resident student population—ARSP—of 275. In addition, based on the information currently available from the participating organizations, the Center will also conduct a substantial amount of training on a reimbursable basis. Combined, this training reflects an ARSP of approximately 900. Based on previous years' experience, we anticipate these projections will be adjusted consistent with each participating organization's budget authorization.

TYPES OF TRAINING

The Center conducts training and provides support and facilities for five primary categories of instruction. The basic programs, which provide entry level training for investigators and uniformed officers range in length from 5 to 17 weeks.

In fiscal year 1982, we will train 464 students in the basic 7 week criminal investigator program. We project 714 students in fiscal year 1983.

The basic training programs conducted for uniformed police officers will graduate 2,322 students from the nine different police programs during fiscal year 1982. In fiscal year 1983, we will train an estimated 2,384 police recruits.

Several organizations conduct additional agency specific training for their entry level employees. This training is provided after an employee has completed a basic program, but during the first year of a probationary period. During the fiscal year 1983, 2,106 students will receive follow-on basic training.

The Center conducts advanced and specialized training for journeymen investigators and police officers in subjects that are common to two or more organizations. During this fiscal year these programs will account for 1,466 graduates. In fiscal year 1983, projections are for 1,006 students.

The Center provides each participating organization the opportunity to develop and conduct advanced or specialized training to meet the specific needs of its personnel. This training is conducted by the organization's instructional staff, with assistance provided by Center faculty as requested. All administrative and logistical support is provided by the

Center. In fiscal year 1982, we project 7,253 students will receive this training; 6,488 will be trained in fiscal year 1983.

FACILITY OPERATIONS

With a 1,500-acre facility and over 200 buildings, a significant aspect of the Center is its plant operation and maintenance activities.

The indoor firing range building became operational this past January. The acceptance of this building completes the permanent master plan construction program.

A $1.3 million contract was recently awarded to renovate centrally located underutilized or unoccupied buildings in order to permanently house participating organization personnel and Center staff. Plant operations staff have received extensive training in order to insure continuous operation of specialized facilities such as the indoor firing range, new training building, a solar energy system in the physical specialties complex, and the driver specialties training facilities.

In fiscal year 1979, the House and Senate Appropriations Committees instructed the Center to use $10.2 million of previously appropriated construction funds for ongoing requirements for repairs, alterations, minor construction, and equipment for facilities at Glynco. Through September 30, 1981, the Center had obligated approximately $2.9 million for these purposes. Additional funds of approximately $6.4 million will be obligated in fiscal years 1982 and 1983. After the $10.2 million has been expended, it will once again be necessary for the Center to rely on the salaries and expenses appropriation for these requirements.

We support the efforts and interests of the administration and this committee to reduce Government expenditures. Assistant Secretary Walker has mentioned that prior to the creation of the Center many Federal agencies had neither formal programs nor adequate facilities to carry out essential enforcement training. Duplication of effort, high overhead, and costly inefficient facilities, which previously served the interests of one agency exclusively, have given way to a single, residential training site which is able to adapt to multiple needs with substantial reductions in costs.

CONCLUSION

Our budget requests reflects our shared concern for fiscal restraint. Specifically, our fiscal year 1983 request is less than a 7-percent increase over fiscal year 1982, and contains decreased resources for staff and nonrecurring costs.

Mr. Chairman and members of the committee, it has been a pleasure to be here today to present the fiscal year 1983 appropriation request for the Federal Law Enforcement Training Center.

My colleagues and I are available to answer any questions you may have concerning this appropriation request.

Thank you.

STUDENT CAPACITY

Senator ABDNOR. Well, thank you, Mr. McKinley.

How many students can you take care of at one time?

Mr. MCKINLEY. We have a capacity to accommodate over 1,200 students at a given time, Mr. Chairman.

Senator ABDNOR. Between 6,000 and 7,000 during the course of the year?

Mr. MCKINLEY. I think, depending on the length of the programs, it could be approximately 10,000 to 12,000, the mix and length really dictates that.

INCREASED TRAINING REQUESTS

Senator ABDNOR. You are getting greater as you go along. More and more requests for your training?

Mr. MCKINLEY. We are getting more and more requests, from a number of different sources, although the workload has remained more or less stable over the years, since we have been at Glynco.

Senator ABDNOR. You have not had to restrict any?

Mr. MCKINLEY. No; we have not. There has been ample ability to accommodate these requests.

TV/AV PRODUCTION COSTS

Senator ABDNOR. How much have you spent on the education, on the training and television?

Mr. MCKINLEY. We have very limited resources at this time for the TV/AV production area. In fact, we recently reassigned those personnel who did have a job in that area. So at this time we do very limited AV/TV production, and that really is limited to supporting the ongoing operational programs, the day-to-day needs, as opposed to large scale productions.

FACILITY STREET LIGHTS

Senator ABDNOR. I understand you had 144 street lights that you replaced with the lantern-type lights, that cost what, $1,100 apiece?

Mr. MCKINLEY. They were installed for energy efficiency. Because of the cost benefits in the long run, the outlay justified the actual purchase of these street lights. This cost was borne out of the construction funds, and was part of the design of the facility included in that construction program.

Senator ABDNOR. In other words, you really think that that $1,100, in each one, would pay for itself?

Mr. MCKINLEY. That was the rationale, yes.

RELOCATION OF RADIO ROOM

Senator ABDNOR. I was just curious.

It cost $42,000 to relocate the radio room in building 262. Did we get that wrong? I thought it was to accommodate a new office.

Mr. McKINLEY. Could you please repeat that? Which facility?

Senator ABDNOR. Did it cost $42,000 to relocate the radio room in building 262, to accommodate a new office?

Mr. McKINLEY. $42,000? It did not cost that to move the radio room, but we had to do some renovation to move other activities into the area previously occupied for this purpose. In fact, the radio room was moved into an underutilized facility in the library, which made better utilization of that facility, and tightened up some of the support facilities into a single area. I do not really know how much it cost. We could provide that for the record.

Senator ABDNOR. Could you provide that for the record?

Mr. McKINLEY. Yes.

[The information follows:]

The second floor front of the new training building (building 262) was designed for administrative functions. A section of this area that adjoins the classroom area was initially set up as a communications laboratory for training students in radio procedures. The air-conditioning in this area was designed for office use and due to projector and audio equipment, the laboratory area became extremely hot when classes were in session.

In 1981, it was determined that the Office of Faculty Management (OFM) should be relocated to be near the Office of Program Management (OPM) staff located in building 262 and to also be near the classrooms where all basic training is conducted. This consolidation of staff had the additional advantage of making space available in the previously occupied building for staffs of the Drug Enforcement Administration and the Bureau of Prisons who were in the process of transferring their training programs to Glynco. In order to make the necessary space available for administrative use, the communications laboratory was moved to the library area of the building. The library space was underutilized and the air-conditioning capability of that area is able to support the laboratory operation. The Training Support Division (TSD), which has daily contacts with students and instructors was moved into the area vacated by the communications laboratory and the OFM staff offices were then placed in the area at the front of the building previously occupied by the TSD.

The total cost of modifying space to meet the needs of OFM, TSD, and the communications laboratory was approximately $32,500. This new configuration has resulted in more effective space utilization and improved intra-Center communications and operations.

VIOLATION OF PRIVACY ACT

Senator ABDNOR. Is the Center being sued by the Center employees union for violation of the Privacy Act?

Mr. McKINLEY. No, sir. There is not a suit by the employees' union. However, there is a pending suit on the violation of the Privacy Act, relating to savings bonds.

Senator ABDNOR. Was it the personnel who filed the dispute——

Mr. McKINLEY. No, sir; it was the existence of a list of participants and nonparticipants in the purchase of savings bonds, which is the basis of the suit.

Senator ABDNOR. Say that again.

Mr. McKINLEY. We had a list, used by the Savings Bond Chairman, that actually listed the people who were and were not taking out savings bonds. That was the basis of the suit. There was no distribution of the list but the mere existence of the list was the basis for the suit. It is an individual suit, as I understand it, right now. It started out to be a class action, which the judge reversed, and there are 10 employees who are involved in the suit individually at this point.

MONITORING FTS CALLS

Senator ABDNOR. I notice over here on your written statement, on page 8, the paragraph, I was wondering how far this really goes, "a device has been purchased and installed which records data related to telephone calls made over the Federal Telecommunications System, FTS, and provides the information to allow for the reimbursement of FTS expenses by other organizations."

That gives you a lot of latitude to what you are listening to, FTS goes into a lot of areas.

Mr. MCKINLEY. It is not a listening device. I will have Mr. Kelso respond to that.

Mr. KELSO. Mr. Chairman, the device records the number of the location that has been called from the Center. There is no recording of any voice data at all. It records the number called, and the period of time that this call was, in fact, in existence. From this, we can determine the cost of these FTS calls, and we actually project that there has been approximately a 40-percent reduction in the number of FTS calls since this device was made available to us.

Ms. BEEBE. Mr. Chairman, the general allocation of costs for FTS are done in that manner, that is certain frequencies in the day, lines are tapped in, and the number of calls are taken on a sampling basis, and then we are charged for FTS calls. That is a standard procedure.

Senator ABDNOR. Can you tell us who is calling, things like that?

Ms. BEEBE. No.

Mr. MCKINLEY. It records a telephone number in our system, from which the call was made, but you cannot tell who actually placed the call. The device also lists the number to which the call was placed.

Ms. BEEBE. One of the general goals of all the agencies is to reduce the use, unnecessary use of FTS.

Senator ABDNOR. I know the operator occasionally cuts in.

Well, I think we will conclude our hearings today.

Senator DeConcini could not be here today, but he may have some questions on the Law Enforcement activities of the Treasury. They will be entered for the record. Senator Chiles may also have a question for Commissioner von Raab of Customs.

Mr. WALKER. Fine. We will be happy to answer any additional questions.

SUBCOMMITTEE RECESS

Senator ABDNOR. We will stand in recess, until May 3, when we will hear the IRS, from the Secretary of the Treasury.

Thank you.

[Whereupon, at 4:05 p.m., Monday, April 26, the subcommittee was recessed, to reconvene on Monday, May 3.]

TREASURY, POSTAL SERVICE, AND GENERAL GOVERNMENT APPROPRIATIONS FOR FISCAL YEAR 1983

MONDAY, MAY 3, 1982

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, D.C.

The subcommittee met at 10:13 a.m., in room 1224. Everett McKinley Dirksen Senate Office Building, Hon. James Abdnor (chairman) presiding.

Present: Senators Abdnor and DeConcini.

DEPARTMENT OF THE TREASURY

INTERNAL REVENUE SERVICE

STATEMENT OF ROSCOE L. EGGER, JR., COMMISSIONER

ACCOMPANIED BY:
- JAMES I. OWENS, DEPUTY COMMISSIONER
- KENNETH W. GIDEON, CHIEF COUNSEL
- JOEL GERBER, DEPUTY CHIEF COUNSEL
- JOSEPH T. DAVIS, ASSOCIATE COMMISSIONER, POLICY AND MANAGEMENT
- JOSEPH E. BISHOP, ASSISTANT COMMISSIONER, COMPUTER SERVICES
- M. EDDIE HEIRONIMUS, ASSISTANT COMMISSIONER, RETURNS AND INFORMATION PROCESSING
- JOSEPH F. KUMP, FISCAL MANAGEMENT OFFICER
- CORA P. BEEBE, ASSISTANT SECRETARY (ADMINISTRATION) DEPARTMENT OF THE TREASURY
- ARTHUR D. KALLEN, DIRECTOR, OFFICE OF BUDGET AND PROGRAM ANALYSIS, DEPARTMENT OF THE TREASURY
- JOHN RANKIN, ACTING ASSISTANT COMMISSIONER, CRIMINAL INVESTIGATION, INTERNAL REVENUE SERVICE

BUDGET REQUEST

Senator ABDNOR. The subcommittee will come to order. I apologize for being late. I was tied up with some other business here.

Today we are in the second day of hearings on our fiscal year 1983 budget before the Subcommittee on Treasury, Postal Service and General Government Appropriations.

Of course, the witness this morning is the Hon. Roscoe L. Egger, Jr., Commissioner of the Internal Revenue Service. We are happy to have you with us once again, and I am sure you want to introduce your colleagues.

You may proceed in any manner you care to.

Mr. EGGER. Mr. Chairman, I am pleased to be here today to present a proposed supplemental budget for fiscal year 1982 and the 1983 budget request for the Internal Revenue Service. First, I would like to introduce my associates: Deputy Commissioner Jim Owens on my left; Ken Gideon, our Chief Counsel; and Joel Gerber, Deputy Chief Counsel, who is also here, but not at the table; Associate Commissioner Joe Davis is on my far left, for Policy and Management; Assistant Commissioner, Bob Rebein, for Inspection; John Rankin for Criminal Investigation; Joe Bishop for Computer Services; and Eddie Heironimus for Returns and Information Processing; and Joe Kump, our Fiscal Management Officer. With us representing the Treasury Department are Cora Beebe, Assistant Secretary—Administration; and Art Kallen, Director of the Department's Office of Budget and Program Analysis.

As part of the Service's reorganization approved by the Secretary on January 11, several of our witnesses have been appointed since we testified before you last year. With your permission, I will submit their biographical statements for the record.

Senator ABDNOR. Without objection.

PREPARED STATEMENTS AND BIOGRAPHICAL SKETCHES

Mr. EGGER. I would now like to briefly summarize our request and, with your permission, submit the more complete statements for the record.

Senator ABDNOR. Your entire statement will be placed in the record.

[The information follows:]

STATEMENT OF ROSCOE L. EGGER, JR.

Mr. Chairman and members of the Committee, I am pleased to be here today to present the proposed budget for Fiscal Year 1983 for the Internal Revenue Service. First, I would like to introduce my associates: Deputy Commissioner, James I. Owens; Kenneth W. Gideon, our Chief Counsel; and Joel Gerber, Deputy Chief Counsel; Associate Commissioner Joseph T. Davis for Policy and Management; Assistant Commissioners Joseph E. Bishop for Computer Services; and M. Eddie Heironimus for Returns & Information Processing; and our Fiscal Management Officer, Joseph F. Kump. Also with us representing Treasury Department are Cora P. Beebe, Assistant Secretary (Administration) and Arthur D. Kallen, Director of the Office of Budget and Program Analysis. As part of the Service's reorganization approved by the Secretary on January 11th, several of our witnesses have been appointed since we testified before you last year. With your permission, I will submit their biographical statements for the record.

As you are aware, Mr. Chairman, this FY 1983 budget request is the first to be totally shaped by the current Administration. Because of this, each major program and project was reviewed in depth, with particular emphasis on rethinking the Service's long-term strategy for effective tax administration. We have intentionally taken a multi-year approach wherever possible, to provide the program commitment and continuity so often absent from a one-year-at-a-time approach. For example, we are proposing "no-year funding" for our ADP modernization efforts --- meaning appropriated funds would remain available until expended, without regard for fiscal years. I believe this budget lays the groundwork for a more modern, more efficient Internal Revenue Service --- one which can meet the challenges of the 80's and beyond.

Summary of the IRS Budget

Our proposed budget for Fiscal Year 1983 provides for average employment of 88,673 and some $2.917 billion. This is an increase of some 3,300 average positions from the level proposed for Fiscal Year 1982. In dollars, the Fiscal Year 1983 request is $328.1 * million more than the proposed level for Fiscal Year 1982.

These proposals include major increases to improve IRS' effectiveness and efficiency of operation, as well as tax enforcement. In keeping with the Administration's goals, these cost-effective proposals should help lessen the need for future staffing.

One of the important objectives of this budget is to move the Internal Revenue Service ahead in modernizing its ADP systems and improving the efficiency of our field offices. This will be accomplished by introducing new systems and procedures that make use of current technology. The budget includes approximately 300 average positions and $75.3 million for this purpose. These initiatives are essential to effective tax administration in the 1980's.

The other major objective of this budget is that of improving tax enforcement. An equitable tax system requires that unreported tax is identified and assessed, and that unpaid tax is collected. This proposed budget provides some 5,225 average positions and $154 million to improve the Service's ability to deal in a firm and fair way with

---

* Increased pay costs, in excess of $90 million, are included in the FY 1983 figures but not the FY 1982 estimates (at this point), causing the increase between the two years to appear larger than it may ultimately be.

problems of noncompliance. These program improvements are necessary to assure that taxpayers pay their fair share of the tax burden, and to secure the revenues provided for under existing tax law. Based on experience, the Service estimates that this increased enforcement capability will result in increased net revenues of approximately $1.9 billion that would otherwise not come into the Treasury in 1983.

The balance of our request covers estimated increased costs of operations necessary to maintain programs at current levels in FY 1983.

I would now like to discuss in more detail our program plans and related resource needs, by appropriation and budget activity, for fiscal year 1983.

SALARIES AND EXPENSES APPROPRIATION

Executive Direction

The Executive Direction function in the Salaries and Expense Appropriation includes my office, the EEO, Taxpayer Ombudsman and Public Affairs offices, the Associate Commissioners, the Assistant Commissioners and the Chief Counsel and their immediate staffs and the Planning and Research function.

Our proposed budget for this activity is 292 average positions and $20 million, an increase of 14 average positions. This increase principally results from an interappropriation transfer of six average positions for unreported income studies and eight average positions for enhancement of research and development activities.

Internal Audit and Security

The proposed budget for Internal Audit and Security maintains this program at the same level as in FY 1982. Internal Audit will emphasize nationally coordinated audits, audits of high risk areas and pre-installation reviews of the Service's data processing equipment replacement program. Investigative efforts in Internal Security will be concentrated on allegations of misconduct with the most significant potential for criminal prosecution.

Management Services

This activity develops and recommends policy for effectively managing the Service's human, logistical and financial resources, and providing centralized processing support in district offices.

This request totals 721 average positions and $29.6 million, an increase of 42 average positions from fiscal year 1982. The apparent increase reflects an interappropriation transfer of 42 average positions to provide necessary support for the payroll/personnel system and for workload transfers.

At this program level, Management Services will emphasize achieving greater productivity in the Service's labor intensive, office-based operations. A major initiative is the Training System for the 1980's which will bring computer managed, self-instructional technology to major offices, ensuring uniform, high quality training while reducing travel costs.

Legal Services

We are requesting 1,529 average positions and $63.6 million for Legal Services in FY 1983. We are implementing changes in the manner which cases are processed in order to maintain present levels of effectiveness in the abusive tax shelter area and to continue timely handling of litigation matters. We must attempt to continue providing uniform litigation positions in tax cases to support the administrative positions of our examination and collection personnel. Additionally, we must support our enforcement programs with technical advice due to the complexity of the internal revenue laws.

Technical Rulings and Services

Requested resources of 529 average positions and $23.8 milllion for the Technical Activity will maintain in FY 1983 the planned program levels for FY 1982. At this level, we will continue our emphasis on simplification of tax forms and publications.

TAXPAYER SERVICE AND RETURNS PROCESSING APPROPRIATION

Data Processing Operations

This activity provides funds for processing tax returns, issuing refunds and notices of tax due, and accounting for revenues. It also includes the cost of maintaining the Service's Automated Data Processing Systems.

Our requested FY 1983 resource level for Data Processing Operations totals 25,582 average positions, an increase of 166 average positions and $100.5 million from FY 1982 proposed levels. With the resources requested, we will receive and process approximately 144.6 million primary returns, an increase of about 2.9 million over current estimates for FY 1982. The additional 822 average positions necessary to process the additional returns, schedules, notices, tax bills and to issue refunds promptly, detect duplicate or fraudulent refund payments and to answer taxpayer inquiries for account information will be offset through productivity savings:

- Estimated savings of some 114 average positions are expected as a result of the Microfilm Replacement System which replaces the current, largely manual effort with a modern automated system.
- The remaining estimated productivity savings, 708 average positions, represent an additional productivity goal. We believe this goal is attainable.

These requested resources also provide for (1) the continuation of the Service's multi-year Equipment Replacement Program which is designed to replace obsolete breakdown-prone computer equipment in our service centers and the National Computer Center and (2) capital investments to improve the efficiency of our field offices by introducing new systems and procedures that make use of current technology. Together, these essential investments total almost 300 average positions and some $75 million. Included in the modernization proposal are the following programs:

- Development of Automated Collection and Examinations Systems ($38.2 million). These efforts are designed to speed up collection of delinquent taxes and increase productivity of existing office examination processes, reducing the volume of paperwork now required.
- Data Entry and Retrieval Systems ($7.5 million). This replaces worn out equipment used to enter data from tax returns into tax processing computers and electronically retrieving tax account data to update accounts and to assist taxpayers with questions or problems on their accounts.

- Optical Character Recognition ($6.3 million). This provides new equipment for processing Federal Tax Deposits (FTD's) -- potential savings of $23 million over the next six years -- and related high speed non-impact printers. This effort represents the first phase of broader applications for the use of this productivity enhancing technology in IRS processing activities.
- Zip Code Presort Equipment ($3.5 million). This equipment enables IRS to presort outgoing mail in order to receive discount from the Postal Service.
- Office Automation and Management Improvements ($3.3 million). These efforts focus on automating support to district and regional offices and implementing the Service's Decision Enhancing Management Information System (DEMIS).
- Other selected Management Improvements ($2.0 million). Efforts include readiness check equipment for annual tax processing system reviews and general productivity improvements.

Statistical Reporting

The FY 1983 requested level of 577 average positions reflects the reduction of 13 average positions from FY 1982 authorized levels. These reductions will be accomplished primarily through relocation of processing for the Partnership Statistics of Income (SOI) study to the Service Centers.

Taxpayer Service

The resources devoted to our Taxpayer Service activity have been reduced in FY 1983. Our budget requests 3,127 average positions and $196 million for FY 1983, a reduction of 1,691 average positions and $34.5 million from FY 1982 program levels. This is the result of some very difficult choices made during deliberations on the overall FY 1983 budget, and will mean a cutback in service as we've known it in the past.

Basically, the reductions are planned for our toll-free telephone system, which beginning in fiscal year 1983 will be limited to answering taxpayer inquiries on their accounts, such as billings, refunds, and so on. We will no longer be able to respond to substantive tax law questions in this fashion. This trade-off, however, enables us to preserve most of the other services offered to taxpayers.

The Taxpayer Service program in Fiscal Year 1983 will focus on those services which for the most part can only be provided by the Internal Revenue Service, such as the account questions I mentioned above. We expect to answer some 12.6 million calls of this type in FY 1983. Quick question walk-in service will also be directed primarily toward answering account and notice related questions. The self-help returns preparation program will be continued, as will direct preparation of returns for handicapped taxpayers or others who demonstrate they are unable to use self-help. In total, we expect to assist about 5.2 million walk-in taxpayers in FY 1983.

Many taxpayer information programs will be continued, as will correspondence assistance and all Taxpayer education programs except institutes currently conducted for professional tax practitioners. Increased emphasis will be given to the IRS sponsored volunteer tax programs in order to provide forms preparation assistance to greater numbers of elderly, low income, and other taxpayers with special needs. We also plan to expand to all IRS District Offices and large posts-of-duty the Federal Tele-Tax Information Service, which is currently being tested in Baltimore and which provides recorded tax information to taxpayers having touch-tone telephones. By expanding the program nationwide, we expect that another 2.9 million taxpayers will be assisted by Tele-Tax.

Also in FY 1983, IRS will again contract for production of tax information shows for telecast by Public Broadcast television stations, and promote the use of Forms 1040/1040A films and cassettes by community/library audiences. We also will continue to run self-help classes to provide groups of taxpayers with instruction in how to fill out Forms 1040/1040A. The Problem Resolution Program will continue in FY 1983 and is expected to handle approximately 320,000 cases, the same as in FY 1982.

So overall, emphasis will be placed in FY 1983 on assisting all taxpayers who must rely on IRS for assistance, while allowing the private sector, IRS volunteer tax assistance and tax information programs to answer the tax law questions of other taxpayers.

We do not believe that the decision to stop answering tax law questions through the toll-free telephone system will leave taxpayers without a way to have their questions answered by the IRS. We feel that the answers to a majority of questions are easily found in our publications and forms packages. To substantiate our theory, we conducted a survey of telephone calls received in seven districts throughout the country. The purpose of this survey was to determine if taxpayers could have located answers to their tax law questions in an IRS publication. Keep in mind that this survey was done after most 1040A returns had been filed, so the inquiries received tend to relate to the 1040, and are therefore more complex.

The results of the survey showed that:

- About 90% of the taxpayers could have found the answer to their inquiry in one or more IRS publications or tax packages.
- About 45% of the taxpayers could have found the answer to their inquiry in the 1040/1040A tax package we sent them.

We believe this survey indicates that the inconvenience of not having IRS answer tax law questions over the phone is largely ameliorated by free, easily available information publications. The expansion of our new Tele-Tax program will be another significant factor.

In order to insure that taxpayers can obtain our forms and publications quickly, we've taken steps to improve the efficiency of our forms distribution process.

The IRS currently distributes tax forms to the public by a variety of means, including 40,000 banks and post offices, 16,000 public libraries, 2,000 local government offices, and 700 IRS field offices. This year we've added about 2,000 new outlets which are reflected in the above figures.

Our service standard for responding to requests for tax materials is that the requested materials will be mailed within 72 hours. This represents a decrease of 72 hours in response time from just a few years ago. During filing season peaks, however, this may slip to 96 hours.

However, we plan to increase our responsiveness to taxpayers even more through the Central Inventory and Distribution System, which is an automated system expected to save IRS some $6.5 million in space and labor costs annually when fully implemented in 1985. Anticipated benefits include faster order fulfillment, less need for inventories of materials, and individual order tracking.

EXAMINATIONS AND APPEALS APPROPRIATION

Examination

I would like now to comment briefly on our Examination program. Examination of returns is one of the primary means through which full compliance is encouraged, errors corrected and public confidence in fair tax administration maintained.

Requested resources for the Examination program in FY 1983 total 28,764 average positions and $935.1 million, a net increase of 882 average positions and $83.3 million above proposed levels for FY 1982.

At the requested program level, an increase in Examination staffing of some 3.2 percent, we expect to examine about 1.8 million tax returns and to correct 868,000 returns through service center programs -- a total of 2,671,000 examinations and corrections. This is an increase of about 142,000 examinations and corrections over FY 1982 planned levels. In addition, we will be reviewing about 500,000 questionable withholding cases (Forms W-4). These efforts involve computerized analysis and matching that identify specific compliance programs. These cases are service center contacts and are not counted by IRS as examinations.

Included in the resources requested are 1,000 average positions as part of the Service's major initiative to improve its tax enforcement capabilities. These positions will be used to increase the number of audits of large corporations and high income individual tax classes where underreporting of tax liability is most apparent. These additional resources will result in an additional $318 million in assessed tax and interest in FY 1983.

Appeals

The Service proposes a program level for the Appeals activity in FY 1983 of 2,146 average positions and $81.6 million, an increase of 313 average positions and $16 million above FY 1982 levels. Of the requested staffing increase, 225 average positions will be added as part of the Service's initiative to improve tax enforcement. These positions will help reduce backlogs of cases awaiting administrative settlement and will result in collecting an additional $190 million in tax and penalties. The balance of the requested staffing is necessary to maintain current program levels in FY 1983.

Also included in the resources requested is $1.6 million for implementing the new Counsel/Appeals Case Tracking System (CATS). This new system will improve case tracking capabilities and replaces existing manually prepared and computer generated management reports.

INVESTIGATIONS AND COLLECTION APPROPRIATIION

Tax Fraud Investigations

This program enforces the criminal provisions of the tax laws. With the resources requested, a total of 4,361 average positions and $170.8 million, the Service will maintain FY 1982 planned program levels. The Service will maintain its commitment to the Special Enforcement program areas of organized crime and narcotics traffickers and on large and multi-year investigations.

Collection

In the Collection program, which has the responsibility for collecting unpaid taxes and securing unfiled returns, the proposed budget totals 18,194 average positions and $529.0 million, a net increase of 3,638 average positions and $130.5 million from the proposed level for FY 1982.

• The increases proposed for this activity, net of nonrecurring staffing as a result of advance hiring in FY 1982 provided in our proposed supplemental, are key to the Service's plans to improve tax enforcement in FY 1983. This additional staff, which is only a temporary increase, will be used to help reduce substantial backlogs of unpaid tax (3,000 average positions) and to secure returns and related tax from non-filers (1,000 average positions). Based on our experience, these efforts will result in an additional $1.7 billion in gross revenues collected in FY 1983.

Employee Plans and Exempt Organizations

Resources requested for the Employee Plans and Exempt Organizations activity total 2,004 average positions and $71.9 million, an increase of 19 average positions and $5.2 million from the FY 1982 level. These resources, which reflect interappropriation transfers, provide for continuation of planned FY 1982 program levels in FY 1983.

Conclusion

In closing, I would like once again to stress this budget is the first step in our multi-year effort to make tax enforcement more effective and, through selected ADP investments, reduce the need for future resource increases to match growing workload. The major initiatives we have proposed for ADP modernization and tax enforcements will help assure continued public confidence in our self assessment system. These proposals are cost effective and will result in increased revenues far in excess of costs.

I also want to make it clear that we are committed to the principle that additional numbers of staff are not the only way to do our job. Obviously this is an element in an array of things we must look to in carrying out our mission, but it must be supplemented with other innovations. For this reason, we are seeking legislative remedies to administrative problems in tax administration. In particular, using changes in the tax law to better address enforcement problems in the "tax gap". We are interested in a number of proposals now pending in the Congress which are intended to facilitate the reduction of this tax gap. The thrust of these pending proposals is to make the job of tax enforcement easier, substituting information reporting and appropriate penalties for additional enforcement staff which are not as cost-effective.

Another action taken by the Service to improve overall efficiency is our recently-announced reorganization. The key segments of this reorganization were approved by Secretary Regan in January 1982; its actual implementation is generally complete.

The basic aims of this reorganization are to improve our policy-making mechanism and to increase cooperation between different sections working in related areas. These will be accomplished largely by the creation of three new Associate Commissioner positions, dealing with Operations, Data Processing, and Policy and Management. These Associates will develop programs, set policies and priorities, and coordinate the functional activities under their control. They will be, strictly speaking, policy managers. This new arrangement will reduce my span of control, making it easier to focus on broad policy matters.

The reorganization included a number of other points as well, all of which are geared to streamlining the Service's planning and management functions. While the reorganization occurred too late to have these revised appropriation proposals reflected in our budget for fiscal year 1983, we would like to work out the details of this proposed restructure in the next few weeks so that this can be considered this year.

The Service has requested limited transfer authority (2%). This limited authority will facilitate financial adjustments necessary as a result of the reorganization and implementing a revised appropriation structure. It will enable us to react effectively to shifts in workload and backlogs crossing appropriation lines and which can not be resolved by the Service's user funding system, whereby benefiting activities are charged back by other activities as reimbursement for work performed.

I must remind you that the program levels we have discussed for both FY 1982 and FY 1983 presume Congressional approval of supplementals totaling $123.5 million. This request includes $85 million currently estimated to meet increased postage, telecommunications, and unemployment compensation costs which the Service is now incurring. The supplemental also provides 1,005 average positions and $38.5 million to accomplish much of the hiring and training of Collection, Examination and Appeals personnel this year in order to realize the improved tax enforcement objectives in fiscal year 1983. Additional staff to speed up resolution of tax cases in dispute is also requested in this supplemental.

Our self-assessment system is one in which we can be proud, but it cannot be taken for granted. Mounting workload backlogs in our tax enforcement programs, if allowed to continue unchecked because of resource constraints, could threaten our tax system. As managers of the public's business, we owe it to the taxpayers to manage smarter and more efficiently with limited resources. Our FY 1983 request is an important first step in that direction.

Mr. Chairman, my colleagues and I will be pleased to try and answer any questions you or the members of the Subcommittee may have.

INTERNAL REVENUE SERVICE
FY 1983 Staffing Changes by Program Over FY 1982

Program	FY 1981 Actual	FY 1982 Continuing Resolution	FY 1982 1/ Proposed	FY 1983 Proposed	Change in FY 1983 Over 1982 Continuing Resolution	Change in FY 1983 Over 1982 Proposed Level
Executive Direction	331	278	278	292	14	14
Internal Audit and Security	1,010	847	847	847	--	--
Management Services	773	679	679	721	42 2/	42
Legal Services	1,713	1,419	1,589	1,529	110	- 60
Technical Rulings and Services	696	529	529	529	--	--
Data Processing Operations	26,799	25,331	25,416	25,582	251	166
Statistical Reporting	682	590	590	577	- 13	- 13
Taxpayer Service	5,325	4,818	4,818	3,127	-1,691	-1,691
Examinations	27,402	27,592	27,882	28,764	1,172	882
Appeals	1,858	1,773	1,833	2,146	373	313
Tax Fraud Investigations	4,259	4,361	4,361	4,361	--	--
Collection	13,185	14,156	14,556	18,194	4,038	3,638
Employee Plans & Exempt Organizations	2,123	1,985	1,985	2,004	19	19
Total Average Positions	86,156	84,358	85,363	88,673	4,315	3,310
Total Budget Authority ($ Millions)	$ 2,465.4	$ 2,465.6	$ 2,589.0	$ 2,917.2	$ 451.5	$ 328.1

[1] FY 1982 proposed column includes program and cost increase supplemental request of 1,005 average positions and $123.5 million, but excludes FY 1982 pay costs of $91.3 million and increased health benefits costs of $7.7 million.

[2] Change represents inter-appropriation transfer.

INTERNAL REVENUE SERVICE

Summary of Average Position Changes in 1982 and 1983

	FY 1982 Cont. Resol.	Proposed Supplementals	Total FY 1982 Proposed	FY 1983 Changes	Total Request 1983
Salaries and Expenses					
Executive Direction	278	--	278	14	292
Internal Audit and Security	847	--	847	--	847
Management Services	679	--	679	42	721
Legal Services	1,419	170	1,589	- 60	1,529
Technical Rulings and Services	529	--	529	--	529
TOTAL	3,752	170	3,922	- 4	3,918
Taxpayer Service and Returns Processing					
Data Processing Operations	25,331	85	25,416	166	25,582
Statistical Reporting	590	--	590	- 13	577
Taxpayer Service	4,818	--	4,818	-1,691	3,127
TOTAL	30,739	85	30,824	-1,538	29,286
Examinations and Appeals					
Examinations	27,592	290	27,882	882	28,764
Appeals	1,773	60	1,833	313	2,146
TOTAL	29,365	350	29,715	1,195	30,910
Investigations and Collection					
Tax Fraud Investigations	4,361	--	4,361	--	4,361
Collection	14,156	400	14,556	3,638	18,194
Employee Plans & Exempt Organizations	1,985	--	1,985	19	2,004
TOTAL	20,502	400	20,902	3,657	24,559
TOTAL IRS Average Positions	84,358	1,005	85,363	3,310	88,673
Budget Authority	$2,465,551	$123,483	$2,589,034	$328,125	$2,917,159

Total Supplemental	Total FY 1983 Changes
1,005 ave. pos. $123,483 budget authority	3,310 ave. pos. $328,125 budget authority

Total Changes
FY 1982 to FY 1983

4,315 ave. pos.
$451,608 budget authority

March 16, 1982

BIOGRAPHY OF JAMES I. OWENS

James I. Owens was appointed Deputy Commissioner of the IRS on Novmeber 29, 1981.

Mr. Owens began his IRS career in 1959 as a revenue officer in Mobile, Ala. He then held a series of increasingly responsible positions in Augusta, Maine, Louisville, Ky., and Philadelphia.

In 1972, Mr. Owens was chosen for the IRS executive selection and development program, which offers specialized training to employees who demonstrate executive potential. Upon completing that program, he served as assistant district director in Buffalo, N.Y., and St. Louis and as director of the collection division in the IRS National Office. In 1974, Mr. Owens was named Deputy Assistant Commissioner (Accounts, Collection, and Taxpayer Service) and in 1977 was appointed Assistant Commissioner for that function. Following the IRS reorganization of 1978, he served as Assistant Commissioner (Taxpayer Service and Returns

Processing). From 1980 until his appointment as Deputy Commissioner, Mr. Owens served as Regional Commissioner for the IRS Southwest Region headquartered in Dallas.

A native of Underwood, Ala., Deputy Commissioner Owens holds a bachelor's degree in business administration from Livingston University in Livingston, Ala., and a master of business administration degree from Samford University in Birmingham, Ala.

BIOGRAPHY OF KENNETH W. GIDEON

Kenneth W. Gideon was sworn in as Chief Counsel for the Internal Revenue Service on August 14, 1981.

A native of Lubbock, Tex., Mr. Gideon holds a bachelor's degree from Harvard University and a law degree from the Yale Law School. Before his appointment as Chief Counsel, Mr. Gideon was a partner in the law firm of Fulbright and Jaworski in Houston.

Chief Counsel Gideon is a member of the Houston and American Bar Associations (ABA) and served as chairman of the committee on court procedure of the ABA tax section.

BIOGRAPHY OF JOEL GERBER

Joel Gerber recently was named Deputy Chief Counsel for the Internal Revenue Service.

Mr. Gerber began his IRS career in 1965 as a trial attorney in Boston. He then held a series of increasingly responsible positions including staff assistant to the regional counsel in Atlanta, Ga., and district counsel in Nashville, Tenn. From 1980 until his present appointment, Mr. Gerber served as Deputy Chief Counsel for Litigation in the IRS National Office.

A native of Chicago, Deputy Chief Counsel Gerber holds a bachelor's degree in accounting from Roosevelt University and a law degree from DePaul University there. He also holds a master's of law degree in taxation from Boston University. Mr. Gerber is a member of the bars of Georgia, Illinois, and Tennessee.

BIOGRAPHY OF JOSEPH T. DAVIS

Joseph T. Davis was appointed Associate Commissioner (Policy and Management) on February 7, 1982.

Mr. Davis began his government career in the Department of the Navy in 1951. He was selected in 1966 for the IRS executive selection and development program, which offers specialized training to individuals who demonstrate executive potential. Upon completing that program, he served as assistant to the district director in Phoenix, Ariz. In 1967, he was named Assistant Regional Commissioner (Administration) for the IRS Western Region headquartered in San Francisco. In 1973, Mr. Davis came to IRS National Office as Deputy Assistant Commissioner (Administration) and in 1974 was named Assistant Commissioner (Administration). He served in that position, which in 1978 was retitled Assistant Commissioner (Resources Management), until his current appointment.

A native of Nashua, N.H., Associate Commissioner Davis holds a bachelor's degree from St. Anselm's College in Manchester, N.H., and attended Georgetown University and George Washington University. In 1977, he served as Task Force Manager for a governmentwide project on civil service reform and in 1978 participated in the Harvard University Program for Senior Managers in Government.

BIOGRAPHY OF JOSEPH E. BISHOP

Joseph E. Bishop recently was named Assistant Commissioner (Computer Services).

Mr. Bishop began his Government career in 1960 with the United States Air Force. He then held a series of increasingly responsible positions and in 1972, was appointed Director of Systems Development for the Air Force Data Systems Design Center.

In 1973, Mr. Bishop was selected for the IRS Executive Selection and Development Program, which offers specialized training to individuals who demonstrate executive potential. Upon completing that program, he was appointed Assistant Service Center Director in Austin, Texas. He then served as Assistant Regional Commissioner (Accounts, Collection and Taxpayer Service) and as Assistant Regional Commissioner (Taxpayer Service and Returns Processing) in the IRS Southwest Region. From 1979 until his present appointment, Mr. Bishop served as Deputy Assistant Commissioner (Data Services).

A native of Boston, Assistant Commissioner Bishop holds a bachelor's degree in education from Tufts University in Medford, Mass. He is certified in Data Processing by the Data Processing Management Association.

BIOGRAPHY OF M. EDDIE HEIRONIMUS

M. Eddie Heironimus recently was named Assistant Commissioner (Returns and Information Processing).

Mr. Heironimus began his IRS career in 1960 as a management analyst in Lawrence, Mass. He then held a series of increasingly responsible positions, including assistant director and then director of the IRS National Computer Center in Martinsburg, W.Va.

In 1974, Mr. Heironimus was selected for the IRS executive selection and development program, which offers specialized training to employees who demonstrate executive potential. Upon completing that program, he served as service center director in Andover, Mass. In 1979, Mr. Heironimus was named Deputy Assistant Commissioner (Taxpayer Service and Returns Processing) and in 1980 was appointed Assistant Commissioner (Taxpayer Service and Returns Processing), the position he held until his present appointment.

A native of Springfield, Ohio, Assistant Commissioner Heironimus holds a bachelor's degree from Miami University in Oxford, Ohio.

SUMMARY OF SUPPLEMENTAL REQUEST FOR FISCAL YEAR 1982

Mr. EGGER. Some of the requests that we are presenting to the committee today are the result of this administration's efforts in preparing its 1983 budget to take a multiyear approach to major program plans—making the commitments and investments, so often absent from a 1-year-at-a-time approach. These supplemental budget proposals lay the groundwork for many of our 1983 programs and, I believe, will result in a more modern, more efficient IRS—one which can meet the challenges of the eighties and beyond and which will assure continued public confidence in our self-assessment system.

The Service is requesting 1,005 average positions and $123.5 million in fiscal year 1982. Included in our request are resources to begin dealing with the Service's concern with backlogs of delinquent tax accounts and tax litigation workload, maintaining adequate levels of voluntary compliance and improving the efficiency and effectiveness of the tax enforcement system. The Service also requests funds to meet unavoidable cost increases affecting critical Service programs. These proposals include:

Advance hiring initiative. This proposal, totaling 750 average positions and $18.8 million, allows hiring and training a little over half of the proposed staff increase for fiscal year 1983 in late fiscal year 1982. The timing allows the Service to be competitive with other employers in hiring highly qualified spring college graduates for technical positions.

Accounts receivable overtime. This proposal directs the equivalent of 250 average positions of overtime—$6.3 million—to help collect the large backlogs of delinquent tax accounts.

Tax litigation backlog. These resources, 170 average positions and $7 million, will enable the Service to deal more expeditiously with large backlogs of tax litigation cases, thereby improving tax administration. This effort applies to both our legal services and appeals programs.

ADP modernization. Some 85 average positions and $6.4 million will be used to accelerate ADP intitiatives in support of frontline tax enforcement programs. These initiatives involve the development of new automated systems for processing and monitoring delinquent accounts and office examination cases.

Unemployment compensation. We have requested $51 million to cover estimated unemployment costs of seasonal IRS employees—a cost borne by the Service for the first time as a result of the Omnibus Reconciliation Act of 1980—Public Law 96–499.

Postage rate increase. An additional $20 million is required to cover the two rate increases imposed by the Postal Service. These increases impact the distribution of almost 90 million tax packages, bills and notices, and administrative mail.

Telecommunications rate increase. An additional $14 million is necessary to meet tariff increases approved by the Federal Communications Commission.

I cannot stress enough the importance of obtaining these resources if the Internal Revenue Service is to continue to carry out its responsibilities and to meet the program objectives and revenues we have projected in fiscal year 1982 and 1983. For instance, we will not be able to collect the additional $1.9 billion in net revenues included in our estimates for the 1983 budget. Timely consideration and approval of these additional resources is essential. We estimate now that our operating funds will be depleted by late August without this supplemental. This would force serious curtailment of IRS operations this summer.

On a related item for fiscal year 1982, Mr. Chairman, our latest financial review also indicates that we will need to come to the committee for your approval to use the 2 percent interappropriation transfer authority provided in section 110 of the continuing resolution—Public Law 97-92—to correct some funding shortages in the two enforcement appropriations.

Mr. Chairman, I would now like to briefly summarize our fiscal year 1983 request and, with your permission, submit a full statement for the record.

SUMMARY OF FISCAL YEAR 1983 BUDGET REQUEST

As you are aware, Mr. Chairman, this fiscal year 1983 budget request is the first to be totally shaped by the current administration. Because of this, each major program and project was reviewed in depth, with particular emphasis on rethinking the Service's long-term strategy for effective tax administration. We have intentionally taken a multiyear approach wherever possible, to provide the program commitment and continuity often absent from a 1-year-at-a-time approach. For example, we are proposing "no-year funding" for our ADP modernization efforts. I believe this budget lays the groundwork for a more modern, more efficient Internal Revenue Service—one which can meet the challenges of the eighties and beyond.

Our proposed budget for fiscal year 1983 provides for average employment of 88,673 and some $2.917 billion. This is an increase of some 3,300 average positions from the level proposed for fiscal year 1982. In dollars, the fiscal year 1983 budget request is $328.1 million more than in 1982.

One of the important objectives of this budget is to move the Internal Revenue Service ahead in modernizing its ADP systems and improving the efficiency of our field offices. This will be accomplished by introducing new systems and procedures that will enable the Service to make use of current technology. The budget includes approximately 300 average positions and $75.3 million for this purpose. For example, we are moving ahead in the use of optical character recognition—OCR—technology. With your permission, I would like to provide for the record a summary of our plans in this area. These initiatives are essential to effective tax administration in the 1980's.

[The information follows:]

OPTICAL CHARACTER RECOGNITION: AN ALTERNATIVE IN DATA ENTRY FOR THE INTERNAL REVENUE SERVICE

Use of optical character recognition (OCR) technology in the Internal Revenue Service could have a major impact on production and staff savings. Based on automated data capture, OCR can replace a wide range of currently employed methods -- from pencil and paper to key-to-disk systems.

The primary impact would be felt in tax return processing. Our current data transcription methodologies (from tax return to computer usable form) rely heavily on manual labor. While key-punching or key-entry at terminals represented state-of-the-art input techniques at one time, they suffer from dependence on skilled transcription personnel at a time when the availability of these personnel is decreasing. Hiring unskilled personnel requires some degree of training which escalates the overall processing cost. Analysis of companies in private industry utilizing OCR indicates a reduction in data transcription personnel and a much greater rate of throughput, resulting in same-day processing and depositing of their accounts receivable.

While the availability of skilled labor is decreasing, tax return workloads continue to increase in all areas. It is apparent that to meet our processing requirements in the years ahead, we must find alternative methods of data transcription. OCR represents a viable alternative. The technology exists today, is being utilized in both private industry and government, and is continually being improved. OCR can work for IRS if certain requirements are met: (1) applications for OCR equipment are matched to the specifications of the equipment being employed, (2) high quality OCR printing is insured, and (3) forms are designed in close cooperation with OCR vendors.

Our first step in utilizing OCR will begin in July 1982 with implementation of a scanner for the Federal Tax Deposit (FTD) system at the Cincinnati Service Center. This pilot operation will provide the information necessary for determination of Servicewide implementation of similar systems. In addition to the FTD volumes projected for FY 83, we anticipate a 40% increase in workload with the inclusion of Forms 1040ES in the FTD process beginning in April 1983. As a result of OCR, no additional resource requirements are anticipated to meet this increased workload even though additional transcription savings will be realized.

The Cincinnati test will provide a site for testing other applications. Currently scheduled for 1983 testing are 1040A returns, computer-generated 1040 and 1040A returns,as well as service center time and attendance reports. Each of these applications represents a test of the different capabilities of the equipment being procured for the Cincinnati test.

In addition, we are also planning to test two other types of OCR equipment during 1983. A remittance processing system utilizing OCR as the data entry mechanism is scheduled to be installed in the Kansas City Service Center. This type of equipment is used extensively by banks, service bureaus, and credit card companies in their billing operations; a process similar to the IRS "balance due" operation.

Handheld OCR scanners are prevalent in retail store and grocery store inventory control situations. A similar device will be used in our Fresno Service Center data link system for controlling tax document requests. This system is scheduled for installation in November 1982.

Other applications are already being considered for testing. Additional equipment procurements, however, would not be necessary for the testing phases of these projects since the equipment for applications described above would provide the test sites.

Scanning of employment tax and information returns poses a more formidable problem than any of the other applications being considered. The dimensions of this problem involve the recognition of taxpayer information submitted from uncontrolled sources and printed in any and all possible typewriter fonts and handprint styles. However, technology in this uncontrolled multi-font environment continues to improve and successful scanning of these documents could produce, for example, 100% document matching against individual tax returns, with increased revenue yields estimated in the millions of dollars. Procurement of a multi-font system is slated for 1984.

We expect positive results in our upcoming OCR tests. We realize that OCR is not a remedy for all problems. However, it can replace some of the outmoded data entry techniques currently in use. Problem areas do exist, but proper planning can eliminate or limit these to some extent.

IMPROVING TAX ENFORCEMENT

Mr. EGGER. The other major objective of this budget is that of improving tax enforcement. An equitable tax system requires that unreported tax is identified and assessed, and that unpaid tax is collected. This proposed budget provides some 5,225 average positions and $154 million to improve the Service's ability to deal in a firm and fair way with problems of noncompliance. These program improvements are necessary to assure that taxpayers pay their fair share of the tax burden, and to secure the revenues provided for under existing tax law. Based on experience, the Service estimates that this increased enforcement capability will result in increased net revenues of approximately $1.9 billion that would otherwise not come into the Treasury in 1983.

The balance of our request is necessary to maintain essential levels of IRS programs. This includes covering increased costs of operations affecting critical programs in fiscal year 1983.

Because this administration is committed to a goal of reducing Federal employment levels and reducing the Federal deficit, decisions on the Service's program objectives for fiscal year 1983 involved some very difficult choices. One of these decisions involves our taxpayer service program and means a cutback in service as we have known it in the past.

Our budget requests 3,127 average positions and $196 million for the taxpayer service activity in fiscal year 1983, a reduction of 1,691 average positions and $50.4 million, and a net difference of $34.5 million from fiscal year 1982 program levels.

The specifics of our proposed program levels for fiscal year 1983 are more fully detailed in my prepared statement.

In closing, I would like once again to stress that this budget is the first step in our multiyear effort to make tax enforcement more effective and, through selected ADP investments, reduce the need for future resource increases to match growing workload.

I also want to make it clear that we are committed to the principle that additional numbers of staff are not the only way to do our job better. For this reason, we are supporting legislative remedies to administrative problems in tax administration. In particular, using changes in the tax law to better address enforcement problems in the "tax gap."

We also believe that better internal management can improve the Service's overall efficiency and this was the motive behind the recently announced reorganization. The basic aims of this reorganization are to improve our policymaking mechanism and to increase cooperation between different sections working in related areas. These will be accomplished largely by the creation of three new Associate Commissioner positions, dealing with operations, data processing, and policy and management. These associates will develop programs, set policies and priorities, and coordinate the functional activities under their control. They will be, strictly speaking, policy managers. This new arrangement will reduce my span of control, making it easier to focus on broad policy issues.

In summary, the program levels we have discussed for 1983 presume congressional approval of the 1982 supplementals totaling $123.5 million, as well as increased pay costs in fiscal year 1982.

Mr. Chairman, my colleagues and I will be pleased to try and answer any questions you or the members of your subcommittee may have.

Thank you.

Senator ABDNOR. Thank you, Commissioner Egger, for that statement.

UNPAID TAXES

I have been reading a lot in the paper lately about the amount of unpaid taxes. Are they overstating that, or is that a fact?

Mr. EGGER. No; it is an absolute fact, Mr. Chairman.

Currently our unpaid taxes, accounts receivable, that is the taxes actually owed, are a little over $20 billion. A part of what we are proposing for fiscal year 1982, in the supplemental, as well as the significant part of the increase in enforcement personnel in fiscal 1983 is to address that particular problem, to try to get that level of unpaid taxes down to manageable proportions.

Senator ABDNOR. Most of that $20 billion is deliberate. I think most of them actually turn out to do that.

Mr. EGGER. No; I do not want to confuse that $20 billion with the tax gap. The $87 billion in tax year 1981 in tax gap that we have talked about is in connection with these other legislative efforts that I have mentioned.

The $20 billion in outstanding delinquent taxes runs the whole gamut of taxpayers. Part of it is unpaid withheld taxes, that is to say income taxes along with employment taxes, FICA and FUTA that employers have withheld but not paid over; a good bit of it is in the individual income tax area, and then some of it is in the corporate income tax area, primarily in the smaller company area.

About $6 billion of the $20 billion in delinquent taxes is in what we call notice stage. That is to say we are in the process of sending out notices, that is bills or demands for payment to the taxpayers, and a very, very high percentage of this $6 billion will be collected simply by notifying the taxpayers by mail of the amount due.

About $4.5 billion of accounts receivable are in what we call active status. These are the accounts that have been referred to the districts for some kind of collection activity. In other words, taxpayers have not responded to our notices which go out from the service centers. Eventually, we will collect most of the $20 billion under our present procedures, and what we would like to do is collect as much as possible in the notice stage so that we can get to some of these accounts much earlier, before some taxpayers get into financial difficulties that some of these people have.

Our purpose is to head off, if we can, collection problems, that is part of the efforts that we are trying to make.

UNDERSTATEMENT OF TAX

Senator ABDNOR. Do you really think many of our people set out to deliberately try to avoid paying taxes?

Mr. EGGER. It is hard to say how many of them there are. We certainly know that the amounts involved are significant. Our research data indicates that about one out of three taxpayers understate their tax to one degree or another. It may be a very small item, which is simply a matter of calculation, and an obvious mistake by the taxpayers. It may be that something has been left out, whether on purpose or not, it is hard to say.

Sometimes people leave small items of interest or dividends off, because they just simply forget about it, and sometimes they do it while they are thinking about it. It is hard to read their minds and find out what motivates them, but we do know it happens. But there is a significant amount of money that is obviously left off the tax returns through such things as skimming, and other illegal activities.

TAX PROTESTORS

Senator ABDNOR. The people who think it is unconstitutional to pay taxes, how do you handle those people?

Mr. EGGER. Well, the difficulty is, that the more the perception happens out there, that there are a growing number of people who are not paying the full amount of taxes due and owing under the law, then the more difficult it becomes to maintain a healthy self-assessment system, and what our concern is, to turn that whole picture around, so that instead of having these items and the amounts involved grow each year, we would like to see them start coming down, and we believe the solution to that is twofold.

One is to enhance the enforcement activities so that they are more effective, and the other one is to then see to it that the state of the art technology, as we know it today, is made available to us, so as to keep down the total number of people and the total costs of doing this.

We think that once this picture is turned around, and the people perceive that, that then there will be less and less disposition to be cavalier with the tax returns, since there will be a significant downside risk in so doing.

In other words, the penalties and the rate of interest, and the likelihood of the return being identified should encourage more taxpayers to report their income honestly.

Senator ABDNOR. I would guess more and more of those, I guess it is organizations, that some of these people belong to?

Mr. EGGER. Well, we certainly do have the tax protestors, who are growing in number, and we cannot at this point be sure how many people are out there that are participating in this.

We know that the number of returns that we have identified each year has been growing significantly.

Senator ABDNOR. But these guys do not even file returns?

Mr. EGGER. Right. Many of them do not.

Senator ABDNOR. I do not suppose the total number is that great.

Mr. EGGER. The total number probably is not significant in terms of the 95, 96 million individuals. But it is growing. Once again, it is a matter of perception, and we feel strongly that regardless of the fact that it is a relatively small number, it cannot be permitted to go on, and that, too, is a part of our program.

H.R. 4931—TAXPAYERS' PROTECTION ACT

Senator ABDNOR. Commissioner, would you share with us your thoughts on the bill over in the House, H.R. 4931, called the Taxpayers' Protection Act? I believe Congressman Hansen has that.

Mr. EGGER. Yes; many of the provisions in Congressman Hansen's bill have been the subject of other legislation, particularly with regard to disclosure, and things of that sort, and we have testified on the matters previously, both in the Senate and in the House of Representatives.

We have not taken a position on this bill as a whole, and when we do, it will be both a IRS and Treasury position. We have not been asked to testify on this particular bill, as such.

SNYDER CASE

Senator ABDNOR. Well, then another question. What can you tell us about Jim Dwight Snyder and his wife Hallie of Oakland, Md.? Tell us how you and your Department use a writ of entry, when you cannot get a search warrant.

Mr. EGGER. Our experience with Mr. Snyder goes back quite a way. Mr. Chairman, we have received a waiver from Mr. Snyder for his 1971 tax liability so that we can talk about this particular taxpayer's affairs. Typically we would not be able to do that.

Since the early seventies, we have been working with Mr. Snyder, in an effort to try to get him to file a return. In 1971 and 1972, his returns are what we call a Porth-type return, named after a court decision which found that a return in which the taxpayer declined to provide any information because it might violate his constitutional rights is not considered in compliance with the requirement to file a return.

Our Collection Division has proceeded with collection of a return prepared by the Service because Mr. Snyder would not file an acceptable return. We were unable to get any payments on the return, except a very, very small amount, $40, which was the result of a levy of a bank account balance.

In July 1976, our revenue officers began contacting Mr. Snyder. The Snyders live in a very remote area of western Maryland, about 4 hours from the nearest Federal installation by automobile. Each time one of our revenue officers was in contact, or in the area, they would be subjected to implied threats, and were asked, for example, "Do you know what the 'posse comitatus' is, and if you do not, you better find out," and statements of that kind.

Mr. Snyder has many associates in western Maryland. When one of our revenue officers would drive into Mr. Snyder's premises to talk to him about payment of the taxes, within a matter of minutes, a dozen other individuals would show up. While there would be no overt threats, the implications were certainly there.

Finally, in February 1981, we obtained a writ of entry, and went to Mr. Snyder's property to effect a seizure to satisfy taxes and penalties amounting to nearly $74,000.

Based on our prior experience and the remoteness of the area, and so on, there were eight special agents, along with eight U.S. marshals to accompany the revenue officers on the seizure. Two State police were on board, primarily to direct traffic. There was a lot of publicity given to the fact that there was a significant contingent that went up there.

The area is, as I said, remote, and the road leading to his shop and house is rather narrow. Therefore, a number of trucks and other moving vehicles were taken along for the purpose of carrying out the seizure and removing the property. The property that was seized included the equipment in the cabinetmaking shop, vehicles, cash, and various other items of equipment, such as a tractor and a small trailer, pickup truck, things of that kind.

Mr. Snyder has been indicted, arrested, tried, and in December of last year was convicted on two counts of evasion, for 1974 and 1975. He was charged with one count of concealment with intent to defraud, under section 7206, and three counts of failure to file, under violation of section 7203, for 1973, 1974, and 1975. The indictments allege that Mr. Snyder failed to report in 1973 gross income of $18,630, for a tax of $1,422; and for 1974, gross income of $34,855, for a tax of $6,085. For 1975, gross income of $40,972, for a tax of $7,767, and so on.

That, I believe, summarizes the *Snyder* case.

Senator ABDNOR. I am sorry I made you go into such details.

Mr. EGGER. Well, I did not really know how much information you wanted.

WRIT OF ENTRY

Senator ABDNOR. Now that we are all through, what is a writ of entry? I guess you told me here. What is that? Are they good? Should they be replaced by search warrants? What is the definition of a writ of entry? I am not a lawyer.

Mr. EGGER. It is a court order that permits us to go on private premises. We do not go into a taxpayer's private residence, or private premises without a court order. The writ of entry is, in effect, similar to a search warrant.

It permits us to enter without consent of the taxpayer into that property. We do not enter private premises without authority from the U.S. District Court.

Senator ABDNOR. Would the search warrant do the same thing?

Mr. EGGER. It would, except as I understand it, a search warrant does not permit us to force entry. The search warrant merely permits us to make the search.

Excuse me just a minute, Mr. Chairman. Mr. Gideon may want to add something to that.

Mr. GIDEON. Let me just add to that.

The writ of entry is basically for the purpose of making a civil seizure of property subject to the tax lien, whereas a search warrant is just that. It is a warrant that allows a law enforcement officer to enter premises in order to search for something specified in the warrant.

In other words, they are both court orders issued by the court, upon proper showing. It is simply that the purpose is different. A writ of entry is there for civil purposes in order to allow entry to levy on the property, to collect the taxes, as opposed to a search warrant, which is to search for specific items of evidence or contraband in connection with a crime.

Senator ABDNOR. Well, are citizens guaranteed the same rights that they are under the search warrant?

Mr. GIDEON. I think there is really very little difference.

In other words, we have to make a proper showing of the reason why we need a writ of entry, just as we have to make a showing of why we would need a search warrant. It is a little easier to obtain a writ of entry because it is only necessary to show that there is tax owed, and there is property available on premises that we need to go and seize.

SPECIAL AGENTS

Senator ABDNOR. Commissioner Egger, last year we had—you recall only too well, extensive discussions on the subject of a number of special agents in your Criminal Investigation Division, and the inspectors in the Internal Security. Again this year you are requesting the same number of special agents, 2,687, an increase in the number of inspectors, to 295, that is an increase of 12 positions.

It is something I would still like to delve into, probably more so than last year, because this year I find they are looking around for agents for all kinds of uses. As a matter of fact, there was a proposal in BATF for special agents, which has, I guess, been temporarily called off.

I just wonder as to this, is this need of your Agency, as before?

Mr. EGGER. I do not think there is any doubt about it. We are committing more and more resources all over the country to the drug programs, and other organized crime activities.

I am a member of the Vice President's Council on South Florida, our Task Force on South Florida, and I never attend one of those meetings that I am not asked if we are not going to put more resources into Florida, for example, than we already have down there. We probably have more than 90 people altogether committed to that program, along with the special enforcement program in Florida, insofar as our general program is concerned, with the growth of tax protestors, and some of the illegal tax schemes that are called tax shelters, that we are having to get into.

If anything, we are going to be squeezed very hard to maintain any level of investigation of all those areas without a further increase, and in keeping with, again, our efforts to try to keep this budget to a bare minimum, we have simply requested the same number for fiscal year 1983, as we have been authorized for fiscal 1982.

In my judgment, there is still a lot of areas, particularly in the tax shelter schemes, that will simply go uninvestigated because of lack of personnel, but certainly no question in my mind but what the needs are clearly there.

Senator ABDNOR. I guess my concern is still—now, I put these people in the same category, I guess, the agents in the Secret Service, the real dangerous positions there, and all of these people are subject to retirement provisions, at 50 years of age, and 20 years of service, the very thing that we are trying to get on top of now in Government.

Here they have that very special provision, they do not carry guns on a routine basis, and they are trained to do so, and to do so with approval, your approval, but last year I think we found that no weapons were discharged in the line of duty, and I do not think there is any statistics on the number of weapons that were drawn but not fired; that there are statistics on the times the agents are threatened by armed individuals. I guess there are 28 cases cited that way. The job-related injuries by these occupational groups.

I have a hunch that your people are going out collecting—the average tax collector gets in more trouble than your agents. Maybe I am wrong. But I know they probably come closer to threats and job-related injuries than some of the agents. They have special type vehicles, and we are talking about dollars.

Are they to be going on a new type of work? Is the work getting more dangerous than it was in the past?

Mr. EGGER. I think, Mr. Chairman, and I have said this previously, I think that the problem that is concerning you is classification rather than the numbers.

Senator ABDNOR. Maybe that is it.

Mr. EGGER. And our special agents, each of them perform duties which are—which fall within the 1811 classification set forth by the Office of Personnel Management. The same is true of literally every enforcement agency in the Federal Government, including the Secret Service, including the FBI, including a variety of other agencies.

Our people are all subject to, and do carry out the kinds of investigations that are described in that classification. All of them are subject to such assignments. It does not mean that every agent, every special agent, is necessarily on a daily basis, in some kind of a high risk dangerous situation.

It is, by and large, that is true of the Secret Service, and FBI, and all the other enforcement agencies. My concern is that there is—I want to be sure that you understand what some of these problems are.

For example, we have, both historically and ongoing, a number of undercover operations. We perform some of these in very, very dangerous situations, and if you would like to have more information on that, I would be most pleased to bring some of the agents here that have participated in those activities. I would not want to do it in open hearings, Mr. Chairman, because of the fact that in one or two of those, the people involved in the criminal activities would like to know very much who those people are, and we are not about to expose them with that kind of risk, but I would be pleased to bring them here in closed hearings, and have you talk with them.

On the other hand, as far as the weapons are concerned, we regard the carrying of handguns, or weapons of that type, as strictly defensive. We are not an offensive type of activity. We go on about our business, but the purpose of a special agent carrying that kind of armor is for protection.

Senator ABDNOR. I would just go into this with the other areas of importance, the dollars seems to be an important problem.

You just said we have two different types of people altogether, and one is a different category than the other.

TEMPORARY ASSIGNMENT OF SPECIAL AGENTS TO SECRET SERVICE

Mr. EGGER. But their assignments are interchangeable, is what I am saying. The assignments are interchangeable. In other words, one agent, during Presidential election campaigns, for example, we furnish people to the Secret Service, to bolster their staffing from the standpoint of protection of the candidates.

Senator ABDNOR. The Secret Service will take your agents?

Mr. EGGER. Yes.

Senator ABDNOR. On loan, whatever you want to call it?

Mr. EGGER. Yes, we do that. And we do it because obviously Secret Service does not want to staff up for once every 4 year-type of activity.

Now, there our people may be taken out of any one of a variety of assignments, are detailed to Secret Service for that purpose.

Senator ABDNOR. I do not want to go into it now, but I had a lot of exchange with the Secret Service and the BATF, and it seems the need for these agents is tremendously needed today. You have more people than the Secret Service and some of these others, and I have to keep wondering, more so, frankly today than last year when I was talking to you about it.

Mr. EGGER. Well, I think the need for the numbers is clearly there, and if you could meet with, as I do, talk with our field executives, each and every time there is always a clear demonstration of the need for more investigations.

In other words, we have investigations that are waiting in the wings to be carried out.

TOLL FREE TELEPHONE SYSTEM REDUCTIONS

Senator ABDNOR. I have been hearing a few times about the reduction in toll free telephone system.

Mr. EGGER. Right.

Senator ABDNOR. There seems to be a great demand for it. Do you find the information that the people seek is legitimate? So that in the long run maybe it makes your work easier.

I guess my wondering is, has it not been cost effective to you, the toll free telephone?

Mr. EGGER. Well, let me talk a little bit about that.

The review of that activity, or that particluar program, took place as a direct result of the need to find areas in which we could reduce our budget, but without, at the same time, hampering seriously the effectiveness of the Agency.

We took a look at the toll free telephone, and generally sort of reached these conclusions. That No. 1, the toll free telephone program is highly elastic. The more people we put on telephones, the more calls we would get. There is no way to satisfy the market, totally.

In other words, we could probably double the number of people that were on the telephones, and still not quite answer all the phone calls. It posed a seriously expensive and somewhat, in some respects, questionable expenditure of funds.

For example, I had to raise the question myself as to what is the responsibility of the Internal Revenue Service in terms of responding to taxpayers' requests. In an ideal world, perhaps, we would stand there ready to prepare every tax return for every taxpayer that wanted it prepared. It would be immediately obvious, to all of us, that that is out of the question. The cost of it would be impossible, and managing that kind of program would be equally impossible.

So we have to come down from there and say what is it we are trying to accomplish here, and what we are trying to accomplish is to provide a means through which taxpayers can get the answers to the questions which come up at the time they are preparing their returns, or otherwise.

Senator ABDNOR. How did you do that? How are you going to do that? By cutting back?

Mr. EGGER. First of all, we ran two surveys, to see whether or not the questions which were raised, that is, the substantive questions which were raised in the toll free telephone program, could have been answered by reading either the instructions with the tax package, or one or more of the publications which we make freely available to taxpayers.

We found that nearly 90 percent of the questions that were raised could have been answered in that particular fashion. So we are satisfied that by better attention, more careful attention to some of the questions that are raised frequently, and seeing to it that they are well publicized, and set forth succinctly in the publications and the instructions, that we can satisfy the bulk of that.

SELF-HELP PROGRAM

We are also going to try to take our self-help program, which is the kind of small classroom approach to return preparation, out to the neighborhoods and out to the public in more expanded fashion, in the next filing period.

In other words, we would like to hold more of those sessions, perhaps in the evenings, or on a Saturday, in the public libraries, or in the school classrooms, out in the neighborhoods, rather than having everybody come to the Internal Revenue Offices.

TELE-TAX INFORMATION PROGRAM

We experimented this year in the Baltimore District with a cassette recording on a long list of tax subjects, and we will be reworking that program after our experience, and after getting the comments that we got this year from it, in an attempt to put that in nationwide. It is a very, very full explanation of a long list of subjects, and we believe can be put into effect nationwide, at very low cost, and significantly below the cost of the toll free telephone program.

VITA PROGRAM

Then finally, we anticipate that we can be able to do more with our volunteer programs, that is to say the VITA program, and the tax counseling for the elderly, which by the way, Mr. Chairman, we would like to see those two programs merged, because they are essentially the same. The difference being, in the case of the TCE, the individuals are reimbursed for their travel expenses, whereas in the VITA program, which is much larger, and involves considerably more people, they are not so reimbursed, and we think that those people ought to be treated alike.

Our volunteer program last year, by the way, involved something over 47,000 people, they prepared somewhere in the neighborhood of one-third of a million tax returns, and assisted in the preparation of another one-half million returns, and performed, in our opinion, a highly valuable service, which is certainly right in line with the President's request for more direct involvement of the public in some of these programs.

Senator ABDNOR. Well, along that line, you did say in your statement that you are going to provide more assistance to the elderly and low income. Is that the way you are going to do it?

Mr. EGGER. Yes; right now, through our volunteer programs.

Senator ABDNOR. Do you think you are going to get the recruits to do it?

Mr. EGGER. No question about it. Particularly in areas such as retirement areas, we have all the recruits we can possibly train. The more these programs become known, the more people want to participate in them. It is particularly true of retired people, but it is also true of our own staff. We have many, many of our staff who participate in the VITA program, and go out on Saturdays and Sundays, and assist in preparing tax returns on a volunteer basis.

Senator ABDNOR. Well, at the end of your statement, you said you are going to again contract the production of tax information shows telecast by the broadcast stations. How much cost is that?

Mr. EGGER. That did not cost anything. Time was contributed. There may have been some production costs involved, but we did not buy that time. It was made available to us through the Public Broadcasting System.

Senator ABDNOR. You mean they helped you with your production costs, not costs, but——

Mr. EGGER. They had staff people working with us. A good bit of it was done by our own taxpayer service staff, right here in our national office.

We have some hopes that next year we can change the format of these things around. This year the one that we carried on was for 3 hours, and we found that that was simply too long. We hope to do more of it. We plan to produce short videotapes, and we hope to do that, and then ask stations to broadcast those on a public service basis, and things of that kind.

Senator ABDNOR. That is all very good. I am not going to argue that.

IMPACT OF REDUCTION IN TOLL FREE TELEPHONE ASSISTANCE

I still go back to that toll free phone. You do not think this is going to make more work indirectly for your people?

Mr. EGGER. Part of the problem is that we really do not know who we are serving with that. Many of the questions that we get are questions related to the taxpayer's own account. They get a notice of a tax due, and they want to know what it is about, and that kind of thing, and we believe that those things need to have some kind of priority.

In other words, if a taxpayer gets a notice from us, they ought not to have to stand in line, or continue to get a busy signal trying to reach us, while somebody is calling to find out when they are going to get their refund, or after—they have only filed a couple of weeks, where do I get this form, things of that kind, that we regard as a low priority, in favor of the taxpayer who clearly needs the information with respect to their account.

The other part of it is that some of the people using that toll free system are practitioners. These are people who are charging for return preparation service, but they call us on the phone to get answers, and we believe that that ought to be a fairly low priority, by and large.

Senator ABDNOR. That just shows you the needs of some guy who supposedly is a professional, has to call in to get information. Just think of the number of people who are trying to do their own, calling up to straighten them out.

Mr. EGGER. Frequently, Mr. Chairman, that simply represents the easier way to do it, rather than take the book off the shelf.

Senator ABDNOR. I know what you are saying, but I guess I aiso realize there is a heck of a need. I do not know how it balances out in cost. But it seems to me that your people can be—I believe you can have schools all you want to.

Mr. EGGER. Nobody is going to quarrel with you, Mr. Chairman, that the tax law is very complicated.

Senator ABDNOR. And even the simpler things. You would think once or twice everybody ought to know it.

Mr. EGGER. Yes.

Senator ABDNOR. But try campaigning on an issue, and think how many times you have said it, and people ought to know it, it has been in print, and all, but they never heard about it a month later.

I cannot imagine some of the forms that get filled out, and it must take a long time for some of your people to start from scratch to help them out. I just thought in the long run it was probably a good service, and it would save you money.

Mr. EGGER. I have to say this about it. There is no question but that many taxpayers have benefitted from the service, but it is a very expensive one. It is over $50 million, and the question is whether or not what we are getting for the $50 million is worth it.

Senator ABDNOR. That is a small part of your budget. I hate to take all this time, but it is one that I get hit on as much as any of your big ones.

You are cutting $3 to $4 million out.

Mr. EGGER. The net reduction to the taxpayer service program in fiscal year 1983 is $34.5 million.

Senator ABDNOR. Who are the beneficiaries of what is left? Is it going to be certain territories that will have it, and others will not?

Mr. EGGER. No; no, the part that is left is going to be handling the account inquiries. These are things that people really need to know about, because there is some difficulty, or some particular problem with their own account. We are going to maintain that. So that will be available to them.

Senator ABDNOR. I may ask you some more questions in writing.

Mr. EGGER. We have this, Mr. Chairman, we have put together a fairly lengthy list of the kinds of questions, that is sort of categorized them, and then showing the approximate percentage of the calls that are in that category. I would be pleased to furnish that so that you could have a look at it, and then that may generate in your mind further questions that you would like to raise.

SPECIAL COMPLIANCE PROBLEMS

Senator ABDNOR. Well, thank you. That would be fine.

Let me go back to the special compliance problems. The underground economy now, that is getting to be a term widely used to describe informal, but taxable actions that are not reported to IRS, and the underground economy has been estimated to be between 200 and 800 billion, and growing. It is somewhere in that category. It is a wild guess, 200 to 800 billion.

But what is the IRS' current estimate of the size of this underground economy, and what is the estimated amount of unpaid taxes involved?

Mr. EGGER. Well, I can express the underground economy in terms of the tax underpayment. In 1979 we produced a report based on tax year 1976 estimates. We are now in the process of updating that report, and it should be ready for release sometime this summer. And our preliminary figures, based on that study, indicate that the size of what I prefer to call the tax gap, that is the gap between what should be reported and what is actually reported, is estimated at about $87 billion in 1981. That is roughly three times the amount that it was in 1973.

If one simply trends that forward, using the current rate, and the current trends, we would project the tax gap at something in excess of $120 billion, somewhere between $120 and $140 billion by 1985.

Senator ABDNOR. These are people who do jobs legitimately for taxes. But the underground is something different.

Mr. EGGER. Now, let me explain why I changed the terminology, or why I would like to see it changed.

The underground economy sounds a little bit like something illegal. What we are talking about is tax dollars, tax money that is collected by taxpayers from legal sources. These are legitimate occupations and business activities.

The portion of it that is from illegal sources, drug money and some other organized criminal activities, we estimate that to be around $6 billion a year, and as you can imagine, that is much more difficult to estimate than the regular legal source money, and projecting that, this amount could get up around $9 to $10 billion by 1985. Those are the rough proportions.

Senator ABDNOR. Well, to what extent then has the IRS shifted their resources from the examination programs to the other programs, such as criminal investigations, and document matching, to deal with this unknown reported income? Are you doing some of that?

Mr. EGGER. It is not so much a matter of shifting to criminal investigations, because a great deal of this money is not from criminal activities at all. It is simply from failure to report interest or dividends, independent contractors not reporting all of their income, or perhaps over reporting deductions and things of that kind. There are a whole variety of activities involved.

Senator ABDNOR. What about the criminal line, are you shifting over with some of your people?

Mr. EGGER. Yes, we are. But not out of other enforcement activities. We are simply trying to reemphasize such things as the illegal tax shelters, things of that kind, that our criminal investigators are working on.

ADDITIONAL COMMITTEE QUESTIONS

Senator ABDNOR. I am reminded that my time is up. There are lots of questions, but we will submit them to you in writing, if that will be all right.

Mr. EGGER. Certainly, it will be a pleasure.

Senator ABDNOR. Good enough. I guess we do have others to hear from, and we appreciate your being here today, and being so cooperative.

Thank you very much.

Mr. EGGER. Thank you, Mr. Chairman.

[The following questions were not asked at the hearing but were submitted to the Agency for response subsequent to the hearing.]

ADDITIONAL COMMITTEE QUESTIONS

COLLECTION ACTIVITIES

Question: IRS workload of delinquencies has been increasing in the past few years and, given the current economic conditions, the numbers will very likely continue to increase. At the end of fiscal year 1981, the amount of delinquent taxes owed the Federal Government was over $20 billion.

What is IRS doing to determine the type and classes of taxpayers most likely to be delinquent in an effort to prevent future delinquencies?

Answer: We have underway a number of projects that will assist us in identifying taxpayers most likely to be delinquent and in preventing delinquencies. These include:

1) Taxpayer Compliance Measurement Program (TCMP) - Phase III, Cycle 1 - One objective of this study is to identify characteristics of income tax non-filers. In this way we can concentrate our resources on individuals who are actually delinquent in filing balance due returns, as opposed to non-filers who for legitimate reasons may not be required to file for a particular year.

2) Collection Research File - We are developing a computer system that will allow us to track delinquency cases over a period of time. In this way, we hope to learn the types of accounts or taxpayer characteristics associated with repeat delinquencies.

3) Information Returns Program - We secure data by amount and class of income for income tax non-filers. This permits us to direct resources to those groups of taxpayers identified as having high delinquency rates.

4) Treatments Study - We have initiated a study to determine the best method of processing various groups of delinquent accounts that are in "notice status". In this manner, we will be able to give special emphasis to classes of taxpayers that currently do not respond to routine written notices. Our goal is to increase collections in "notice status" and thereby reduce the number of accounts sent to districts, where collection costs are much higher.

5) Federal Tax Deposit Alerts - This program identifies employers prior to the due date of Form 941, who are not properly depositing taxes withheld from their employees' wages. We contact these taxpayers and attempt to bring them into compliance. If the return is filed without full payment, the taxpayer may be subject to early enforcement action. We recently expanded the scope of this program.

6) Trust Fund Compliance Program - We identify business taxpayers who are not complying with the requirements to deposit, file returns and pay the full balance due of withheld taxes. If, after warning, non-compliance continues, we either require the taxpayer to file returns monthly or require the taxpayer to open a special trust account and deposit withheld taxes two banking days after they are withheld. Taxpayers who do not comply with special trust account and deposit requirements may be subject to criminal prosecution under IRC 7215.

Question: IRS has taken several steps to deal with the growing delinquency problem. These steps include granting installment agreements by mail without considering the taxpayer's ability to pay, raising the dollar limit for cases that will be sent to the district offices to be worked, and expanding service center collection activities. In November 1981, GAO issued a report which pointed out that the installment agreement by mail program was not very effective in reducing the number of accounts being sent to the district offices and was, in fact, allowing taxpayers with the ability to fully pay their delinquencies to delay paying them.

Considering the conclusions of the GAO report, how can you justify the continuation of this installment agreement by mail program?

Answer: We conducted two separate studies, using test and control groups, to secure quantitative data on the effectiveness of the installment agreement by mail (IAM) program. Both studies showed that IAMs were of limited value in reducing delinquent accounts or accelerating revenue collection. Therefore, we have discontinued offering IAMs. With the exception of certain low dollar cases, a delinquent taxpayer will have to furnish detailed financial data which establishes inability to pay in full.

Question: How much of the $20 billion in taxes owed the Government are not worked because of the higher dollar limits on cases referred to district offices?

Answer: The $20 billion represents accounts receivable at the end of Fiscal Year 1981. Of that amount, approximately $200 million, or 1%, was in deferred account inventory.

Question: What steps are being taken to collect these delinquent taxes before the statute of limitations of collections expires?

Answer: Each year a reminder notice is sent to individual accounts in deferred inventory. A proposal is currently pending to do the same with business accounts in deferred inventory. In addition, prior to issuing any refunds, the system checks for outstanding liabilities and if it encounters one, offsets the monies to the deferred accounts. The system also monitors the account and if it goes above the deferral level, reissues the account for active collection. The system also associates deferred accounts with other debit balance accounts of the same taxpayer and reissues the deferred account.

Question: How much of this money do you expect to lose completely because the statute of limitations on collections will expire before any district office collection action is taken?

Answer: Data for statute expired amounts is tabulated on a Calendar Year basis. In CY 1980, approximately $1.7 million of the deferred inventory was lost through statute expiration. In CY 1981, the figure was about $2.1 million.

Question: What other steps have you taken, or planned, to deal with the increasing delinquency problem?

Answer: Our Automated Collection System, scheduled for Fiscal Year 1984 implementation nationwide, is expected to economize delinquent account processing by providing a more timely contact and follow-up system. In the interim, we are concentrating on enhancing current telephone collection operations, and exploring new or improved methods of locating taxpayers or their assets:

1) New or expanded telephone systems and circuitry are being ordered for any site needing improvement.

2) Increased emphasis is being placed on telephone collection techniques and procedures, including job aids, training, and analysis/reaction to telephone management information data.

3) We are actively pursuing automated telephone number and address correction research, using private vendors of such services.

4) We are similarly pursuing data link hookups with private locator or skip-tracing services, offering an automated research replacement for some of our current manual methods or access to information we currently do not have.

The net effect of the above changes is to improve the timeliness and efficiency of our current collection efforts, which in turn will allow for broader coverage.

Finally, the quality of closures - for both delinquent accounts and delinquent return cases - is under careful scrutiny. Changes have been enacted to tighten our installment agreement procedures - eliminating the automatic mail-out program, reducing payment timeframes, and lowering the ceiling on allowable agreements are some of the changes already made, with other changes in process.For delinquent tax return cases, we are exploring techniques to secure more internal data, to provide accurate analysis of such cases, as well as increased and higher quality closures through enforced assessment procedures.

Question: What changes do you plan, given the increased collection resources requested in this budget?

Answer: We plan to test an Automated Collection System (ACS) during Fiscal Year 1983 and to expand the system nationaly in Fiscal Year 1984. ACS will provide a virtually paperless system, similar to several used in the private sector, which materially enhances the collection process through advanced telecommunications and computer technology. When ACS becomes fully operational, we anticipate the increased productivity and efficiency of the system will substantially decrease the number of Collection cases required to be assigned for field investigation.

Increased collection resources will permit us to direct more staffing to the rising accounts receivable and return delinquency investigation inventories. We also plan to relieve our field collection staff of many routine clerical tasks through office automation and greater clerical support. The staff hour savings from these efforts will be redirected to inventory reduction.

Question: GAO's November 1981 report on collection activities pointed out a need for a comprehensive evaluation system for collection activities. In your response to this report, you mentioned several new systems under development which would assist in providing information needed to evaluate your collection activities.

What is the current status of these new systems? What are your timetables for having a comprehensive evaluation system in place?

Answer: We are developing priority scoring systems for our major categories of delinquencies, which will enable us to concentrate our resources on the higher yielding cases and, in addition, will allow us to evaluate our effectiveness in disposing of higher yielding cases. We currently have a limited application of these systems in place for delinquent returns and delinquent account investigations on individuals. We have developed a scoring system for delinquent employment tax returns which will, with limited application, be implemented in August 1982. We are also considering the feasibility of a selection system for delinquent business accounts.

In addition, we are testing a Collections Resource Information System designed to provide comprehensive data on district Collection Office function workload and staffhour usage. We have completed a preliminary evaluation of the system. A final report will follow test completion which is scheduled June 30, 1982.

The scoring system, which will enable us to systemically control and issue delinquencies in priority order is scheduled for implementation in Fiscal Year 1985, concurrent with our Service Center Replacement System. We plan to test individual case time reporting in the Collection Field function (CFf) beginning in Fiscal Year 1983. Case time reporting will enhance information available for our evaluation system and improve our resource allocation methods.

Finally, beginning in Fiscal Year 1984, we expect a significant enhancement to our evaluation system with the implementation of the Automated Collection System. This new computer application will provide extensive management information at district, regional, and National levels, for all non-field function activity.

Question: By raising the deferral level on accounts for active collection action, more and more reliance is placed on refund offsets to collect the delinquencies before the 6-year statutory collection period expires.

What procedures has IRS established to evaluate the effectiveness of refund offsets?

Answer: In evaluating our deferral levels for delinquent accounts we have considered the effectiveness of refund offsets. Our current deferral levels were based, in part, on the positive results of refund offsets in closing accounts. We recently initiated a review of current deferral levels which will consider the effectiveness of refund offsets. Our review of this area is scheduled for completion in the first quarter of FY 83. In Fiscal Year 1981 37% of individual income tax deferred accounts and 21% of business deferred accounts were paid through refund offsets. Overall, credit offsets are the most frequent means of collecting accounts in our deferred inventory.

Question: Because of the increasing costs, many private collection firms have been reducing or doing away with field visits to collect debts.

How effective are IRS' field visits in collecting delinquencies from individual taxpayers? What actions has IRS taken to reduce the number of field visits by its collection personnel?

Answer: Our reporting system does not permit us to break out delinquent taxes collected as a result of field visits versus office and telephone contacts. However, we recognize that collecting delinquent taxes by field visitation is far more costly than by office methods and we strive to close as many delinquent accounts by correspondence and telephone as possible. For example, during Fiscal Year 1981, 13.0 million balance due first notices were mailed to delinquent taxpayers, whereas only 1.1 million accounts were assigned to field collection personnel. We estimate that 92% of our delinquent accounts were disposed of without the necessity of a field visit.

Question: In 1978, GAO recommended that IRS establish an evaluation system for the Federal Tax Deposit alert system.

What specifically has IRS done and what are the results of the evaluations?

Answer: We recently completed a review of the effectiveness of the FTD alert program. There were two objectives to our review:

first, to establish whether FTD alerts were effective in preventing subsequent delinquencies and second, to establish whether Collection Office function could process FTD alerts to eliminate nonproductive ones. This study was completed in February 1982, and disclosed several program deficiencies. The study did reveal that Collection Office function was effective in culling out nonproductive alerts.

Copies of our final report were sent to all Assistant Regional Commissioners (Collection) on March 12, 1982, with instructions that they discuss the deficiencies with their respective district office Collection Division Chiefs and take appropriate actions to ensure the deficiencies are corrected. The National Office will evaluate each region's corrective actions during its periodic review of regional office program effectiveness.

Question: The use of offers-in-compromise as a means of settling delinquent taxes has been infrequent (although its use varies considerably among district offices).

What has IRS been doing to ensure more consistent use of offers-in-compromise?

Answer: We have continually stressed to our field personnel and managers the importance of offers-in-compromise as a collection tool and of the need to ensure that offer procedures are uniformly and properly applied. We have accomplished this through memoranda, meetings, articles in the Collection Newsletter, improved procedures and training material, delegations of all offer acceptance authority to field managers, establishment of regional post review programs, and inclusion of the offer program in our National Office Review Program.

Despite these efforts, GAO concluded that still more is needed to be done. At their recommendation, we are currently conducting a study to develop the following:

1) Case profile for suggesting offers.

2) Uniform criteria for asset valuation in determining acceptable compromise amount.

3) Criteria for periodic evaluation of the compromise program as a collection tool.

Question: Since the Bankruptcy Reform Act of 1978, the number of bankruptcies has increased dramatically. Bankruptcies adversely affect IRS' ability to collect taxes due the Federal Government. Although much of the increase in bankruptcies can be attributed to economic conditions, changes in the law also appear to be a cause for the increasing number of bankruptcies. Tax losses from bankruptcies can come in a variety of ways. Businesses write-off losses due to bankruptcies filed by customers. One consumer analyst estimated that tax revenue loss in 1980 was about $3.0 billion. In addition, individuals filing for bankruptcy while owing taxes may never pay them off. Not only is IRS losing tax revenues, but also the new laws have required additional handling of all bankruptcy cases by IRS. In particular, the restrictions on assessing taxes during bankruptcy have greatly increased the handling of bankruptcy cases.

How is IRS able under the new law to protect the rights of the Federal Government as a creditor in bankruptcy proceedings and to avoid the taxpayer's use of bankruptcy as a tax avoidance device?

Answer: The district director's office has the responsibility for establishing and maintaining procedures which will protect the Government's interest and secure the maximum collections from all insolvency proceedings. To perform this task the district director's office coordinates efforts at the earliest practicable time to ascertain the commencement of proceedings and to prepare and file timely the Government's claim in the proceedings.

In all asset bankruptcy cases where there are outstanding liabilities a proof of claim for the full amount of the assessed and unassessed tax liabilities is prepared and filed prior to the bar date with the proper official of the court.

The district director refers to district counsel cases which require legal action to defend our proof of claim; e.g. Chapter 11 and Chapter 13 proceedings where our review shows that the debtor's plan does not adequately provide for the payment of unsecured, secured or priority taxes; and any other case where affirmative action is needed to protect the interest of the Government.

Periodically, the proof of claim files are reviewed to determine the status of the proceeding and the prospects of collection based on the proof of claim filed.

When the districts receive payments from the bankruptcy proceeding, they apply them to the class of tax priority as set out in the court order; then, in as much as the payment is an involuntary payment, the money is credited in such a manner as to give maximum benefit to the United States insofar as future collections are probable.

Section 1129(d) of the Bankruptcy Code prohibits the use of bankruptcy for tax avoidance.

Question: What does the IRS estimate is the total loss to the Federal Government in tax revenue as a result of the increase in bankruptcies?

Answer: At present we have no statistics which measure the loss to the Federal Government in tax revenues as a result of the increase in bankruptcies. Two areas where the revenue loss may be substantial concern liquidation cases where the payment of our notice of tax lien, which was filed before the petition date, is postponed to the payment of claims entitled to priority under section 507(a)(1)-(5); and in Chapter 11 reorganizations where it has been our experience that when the debtor cannot reorganize its business, the Government has frequently seen the debtor's equity in assets whittled away while the debtor makes a futile attempt to reorganize after all real hope has faded.

Question: How much additional resources were needed to handle the increased processing of bankruptcy cases during the past year? What is the cost/yield of working bankruptcy cases?

Answer: The Service has no statistics available at the present time which show the additional resources which were needed to handle the increased processing of bankruptcy cases during the past year. We do know that we expended about 138,000 staff hours for bankruptcy processing at the district level for Calendar Year 1981. Since the service did not keep these types of statistics prior to calendar year 1981, we can not make comparisons with prior years.

At present the Service has no cost/yield figures for working bankruptcy cases. However, beginning in January 1981 we implemented an information system which enables the Service to gather statistical data relative to Bankruptcy Code cases in which the Service files a proof of claim. These statistics will provide the Service with comparative data by IRS district, type of proceeding, type and amount of taxes claimed and amounts collected and abated. However, since we did not input the statistical indicators on all proofs of claim open in January 1981, but only on those cases which commenced after January 1, 1981, the first report generated in October 1981 did not provide a comprehensive picture of the effectiveness of the bankruptcy collection program. Each successive annual report will be more useful as the percentage of claims not covered by the statistical system diminishes.

Question: How are you coping with the restrictions on assessing taxes during bankruptcy procedures?

Answer: To prevent violations of the automatic stay imposed by Bankruptcy Code section 362(a), the Service enters a "freeze code" in the computer upon notification that a bankruptcy proceeding has been commenced. This code prevents the assessment of all tax returns; prevents all adjustments from posting; and freezes the taxpayer entity from all refunds and offsets. In general this code prevents all automatic processing and refund issuance. For example, when a debtor files a balance due return for a pre-bankruptcy taxable period during the pendency of the proceeding, the "freeze code" prevents the service center from making an automatic assessment. After the court lifts the automatic stay, the district director's office and the service center work together to make the assessment manually. This processing imposes a drain on Service resources and causes delays in the issuance of refunds to debtors.

Question: How does the rate of return compare for bankruptcy claims filed by IRS as compared to those filed by private sector creditors?

Answer: Under the provisions of the Bankruptcy Code most Federal pre-petition tax debts are given a sixth priority under section 507(a)(6) and are non-dischargeable liabilities. In contrast unless a private sector creditor has a claim entitled to be classified as a secured claim under section 506(a) most private sector claims are classified as general, unsecured claims and are dischargeable.

Since our tax claims are generally accorded a higher priority than those of private sector creditors we should receive a higher rate of return. For example, in Chapter 7 cases the priority claims must be paid in full before the general, unsecured claims receive any payments. In Chapter 11 and Chapter 13 cases the plans must provide for the full payment of all priority tax claims, while general, unsecured claims need only receive an amount equal to the greatest of the allowed amount of any fixed liquidation preference to which such creditor is entitled.

However, at present we have no statistics which show the exact rate of return for our claims and how this compares with the private sector.

Beginning in January 1981 we implemented an information system which enables the Service to gather statistical data relative to Bankruptcy Code cases in which the Service files a proof of claim. These statistics will provide the Service with comparative data by IRS district, type of proceeding, type and amount of taxes claimed and amounts collected and abated. However, since we did not require the Special Procedures function to input the statistical indicators on all proofs of claim open in January, 1981, but only on those cases which commenced after January 1, 1981, the first report generated in October 1981 did not provide a comprehensive picture of the effectiveness of the bankruptcy collection program. Each successive annual report will be more useful as the percentage of claims not covered by the statistical system diminishes.

Question: How effective is IRS in collecting taxes not discharged during bankruptcy proceedings?

Answer: The Service does not track the collection of taxes not discharged during bankruptcy proceedings. We keep no statistics of the amount of such taxes and the amount we ultimately collect before the statutory period for collection expires.

COMPUTER RESOURCES

A GAO report "IRS Can Better Plan For And Control Its ADP Resources" (GGD-79-48, June 18, 1979) recommended, among other things, that IRS establish a centralized computer performance management group that would develop and implement a coordinated program to measure and evaluate the efficiency and effectiveness of IRS' computer operatitons.

Question: Now that this group has been functioning for some time, what have been the results of the program it is administering?

Answer: The Computer Performance Evaluation Staff has completed a number of ADP studies and tests enabling the IRS to increase the efficiency of computer operations in the regional offices, service centers, National Computer Center (NCC), and Detroit Data Center. The staff has also assisted the Treasury Department and other Treasury bureaus in the review of their ADP operations. Increases in the utilization of existing computer capacity have been accomplished through workload leveling, performance tuning, scheduling strategies, job-mix studies, and the development of a performance management system at NCC. Successes in this program have allowed the Service to forego some additional ADP procurements by increasing the use of existing hardware. Results have been especially noteworthy in keeping the service centers running smoothly until their computers are replaced by SCRS. The program has also improved responsiveness to ADP customers through better scheduling and job loading, and increased the effectiveness of computer room operations.

Question: Has it produced any cost savings or improved productivity?

Answer: There have been both cost savings and improved productivity brought about by this program. For example, the Computer Performance Evaluation Staff achieved a reduction in data communications costs in the Atlanta Service Center by developing a more effective configuration of the IDRS communications network. The basic methodology established may be extended to the other service centers. Workload leveling and characterization efforts directed towards IDRS and NCC systems have increased the responsiveness of inquiries processed through the IDRS system, and improved batch processing at the NCC and service centers.

The CPE staff is also applying productivity techniques in the implementation of the SCRS system. By conducting a SCRS program development system "stress test" simulating interactive users, the staff was able to recommend a disk reconfiguration which increased the number of interactice programming terminals from 35 to 85 without degrading system response time.

Question: Given the extent of computer operations in IRS and their importance in processing taxes, is the computer performance management group adequately staffed?

Answer: The National Office (N.O.) based Computer Performance Evaluation Staff has sufficient staff authorization to cover its basic responsibilities for performance evaluation studies. There is a need, however to provide onsite computer performance personnel to field computer facilities. These personnel would increase the productivity of the (N.O.) CPE staff by developing and providing accurate computer performance data, by performing certain analyses and tests, and by trouble-shooting minor operational problems onsite. This need will become more critical after the more sophisticated and performance sensitive SCRS equipment is installed.

Question: Would more staff result in additional savings or improvements?

Answer: Additional staffing would be used to provide field computer performance evaluation personnel. This would increase the effectiveness of the entire computer performance evaluation program. The studies and tests undertaken by the staff could be completed in less time and the amount of travel time and expense could be reduced by having onsite personnel at computer facilities.

During last year's hearings, IRS provided a schedule for implementing its equipment replacement program among with projected annual costs of the program.

Question: Is the Equipment Replacement Program (ERP) on schedule and if not, what are the revised estimates for the program?

Answer: While some interim dates have changed, the ERP systems (Service Center Replacement System, Microfilm Replacement System, and Master File Replacement System) are expected to be fully operational on or before the schedule previously reflected in the ERP timetable. The most significant change is that the MFRS is now scheduled to be fully operational in January 1983.

The initial SCRS hardware has been installed at the Memphis Service Center and is completing acceptance testing. Brookhaven Service Center is now scheduled to start its acceptance test in August and Fresno Service Center will start its test in September. Both are one month ahead of the original schedule. An attempt is being made to move all sites up two months on the schedule. The system, with all software programs, is scheduled to be fully operational in January 1985.

The Microfilm Replacement System contract was awarded in March and a pilot is scheduled for the Fall. All service centers will be converted by August 1983.

Results of the MFRS conversion and feasibility studies significantly cut the timetable and staffing requirements originally developed. Initially, it was assumed that MFRS would entail conversion of master file programs to COBOL. When this proved not to be a necessity for the replacement system, the implementation schedule was shortened from January 1987 to January 1983. Master File Replacement System Request For Proposals (RFP) were issued in February 1982. Vendor responses are currently under evaluation, and contract award is scheduled for June 1982.

Question: To what extent will ERP cost estimates be effected by inflation?

Answer: Changes from the original cost estimates for ERP are the result of updating for salary increases and two significant program events--the signing of the "lease-to-ownership" contract for SCRS equipment (June 1981) and the results of the MFRS feasibility and conversion studies (April 1981). Inflation has had no discernible impact.

Earlier budget submissions assumed purchase of SCRS and MRS equipment. Purchase of the equipment required obligational authority of $32.3 million for FY 1983. Lease-to-ownership, however, requires only $12.33 million (for FY 1983).

Results of the MFRS studies significantly cut the timetable and staffing requirements originally developed. Initially, it was assumed that MFRS would entail conversion of master file programs to COBOL. When this proved not to be a necessity for the replacement system, the implementation schedule was shortened from January 1987 to January 1983. For FY 1983, only the 21 staff years included in the FY 1983 Congressional Budget will be required for MFRS work. The previous estimate for FY 1983 (reflected in the FY 1982 Congressional) was 101 staff years.

A comparison of estimates submitted in the FY 1982 vs. FY 1983 Congressional Budget Submission is as follows:

Fiscal Year	FY 1982 Budget Estimates	FY 1983 Budget Estimates
1981	$11.3M	$12.1M
1982	26.1M	23.9M
1983	55.7M	32.3M
1984	34.8M	30.8M
1985	32.5M	31.2M
1986	31.9M	24.5M
1987	25.3M	14.8M
TOTAL	$217.6M	$169.6M

Question: How much input did IRS' computer performance management group have in the forecasting of the amount of processing capacity which would be required?

Answer: Since the Computer Performance Evaluation Staff was in its infancy during the period of primary ERP development, it did not formulate SCRS computer capacity requirements. The staff did, however, provide computer utilization and workload data to the ERP task force who developed the ERP capacity requirements. In addition, the staff submitted recommendations to the ERP task force on performance measurement and evaluation tools for use in acquiring the SCRS equipment. The MFRS acquisition team used a CPE study and consultations with the staff to reach various decisions regarding that replacement effort.

Question: If IRS is delaying any redesign of the master file processing system at the National Computer Center (NCC) until after the present computer equipment is replaced, how--without knowing the demand of the redesigned system--can IRS know what kind of equipment and how much capacity it will need?

Answer: The replacement of equipment at the NCC is completely independent of the redesign of the master file processing system. That redesign effort, as a part of the larger redesign of the tax processing system, is only now beginning.

The Master File Replacement System (MFRS) involves only the replacement of obsolescent computer equipment at the National Computer Center. As with the other ERP systems, this system is an outgrowth of the Service's unsuccessful attempts during the 1970's to redesign and modernize the automatic data processing systems that were conceptualized in the 1960's and have remained virtually unchanged since that time. Those earlier attempts to replace systems as well as hardware were abandoned due to Congressional concerns regarding privacy and security. The need for a long range equipment replacement plan, however, had been recognized by oversight agencies. The ERP thus emerged as a long range equipment plan to support the system as presently designed and to ensure continued tax processing capability.

In fact, the MFRS feasibility and conversion studies concluded that program conversion to a high level language could not be accomplished quickly enough to prevent the overrun of existing computer capacity.

A 1978 internal study at IRS cited the uncoordinated development of locally designed management information systems as a major problem at IRS. In fact, until the study group inventoried which systems existed, IRS had no way of knowing how many systems were in existence or what data was being collected. This same study identified information requirements IRS-wide and recommended a strategic approach toward meeting them. However, IRS has recently decided that computer applications to support a local manager's needs are to be developed under the control of that manager. It is currently estimated that IRS will require about 88 computers and 2,000 terminals to achieve the objectives of the program.

Question: How does IRS justify decentralizing the design and development of management information systems in light of its 1978 study?

Answer: As a result of the 1978 study and subsequent efforts of the Management Systems Division, IRS has developed a centralized approach to the development, implementation, and control of management information systems. This approach consists of two strategies. The first is the development of Servicewide and other large management information systems. These have been and will continue to be developed under the direct control of the National Office. Systems such as the Decision Enhancing Information System (DEMIS), work planning and control systems, and administrative systems (e.g., personnel payroll and budget/accounting systems), will be controlled in this manner.

The second strategy involves locally developed systems. Our objective is not to prohibit the field from developing applications, but to control development while providing enough flexibility for the field to meet their growing information requirements. We have established several mechanisms to monitor and control locally developed systems. These include establishment of documentation standards for small systems, establishment of a Software and Technical Information Library and introduction of hardware and software standards for small systems. The Library will capture information and documentation about locally developed applications for the purpose of monitoring system development, avoiding duplication, and fostering the exchange of software within the Service.

The computers and terminals which IRS requires will support both national and locally developed systems. We firmly believe that a critical factor in increasing productivity is putting data processing capability in the hands of managers and their staffs. This can be done most effectively and at the lowest cost via local computers and local networks with the ability to communicate with other locations throughout the Service.

Our current strategy of controlled decentralized development of local applications and central development of Servicewide systems is consistent with the 1978 study and is an effective method for meeting the management information needs of the Service.

Question: There are several general concerns about the IRS computer effort.

How successful has IRS been in its effort to increase magnetic media filing by taxpayers and those supplying information on taxpayers?

Answer: IRS has been very successful in promoting and increasing the filing of information returns on magnetic media. The percent of nonwithholding returns (1099s for interest, dividends, etc.) submitted on magnetic media increased from 68% to 85% of receipts from tax year 1975 to tax year 1980. Efforts to recruit new magnetic media filers are continuing in field offices where filers of 250 or more paper information returns are contacted and invited to seminars presented by the Service on magnetic media filing.

Question: Has IRS taken any other initiatives to reduce the staff and time required for data transcription?

Answer: Although the Distributed Input System (DDE Replacement) is being procured primarily to replace obsolescent, worn-out terminal equipment, there is potential for improved transcription productivity. This productivity would result from features designed into modern data input terminal systems.

The Service is also developing a number of optical character recognition (OCR) projects such as the OCR application to process Federal Tax Deposits. These projects are specifically geared toward reducing IRS's highly labor-intensive, manual data transcription methods, such as key punching and key-to-disk entry.

Question: What is the status of the document matching program?

Answer: In 1982 and 1983, the IRS expects to process over one-half billion information returns, around 85% of total information returns filed. Additional perfection of TIN (taxpayer identifying number) documents will be implemented this year. For tax year 1980, around 2.3 million underreporter notices will be issued, and nearly 2 million nonfiler notices will be issued. This is approximately 400,000 more than last year due to additional efforts to identify taxpayers who may be due refunds.

Question: What percent of information returns is currently matched against tax returns?

Answer: The latest tax year for which final statistics are available is tax year 1979 where 80% or 450 million information returns were matched. The percent matched for 1980 and 1981 is expected to be approximately the same as for 1979.

Question: With the current staffing situation, shouldn't IRS' computers play a larger role to ensure the highest possible level of compliance?

Answer: The Service's strategic planning document, published in September 1981, specifically sets goals for IRS to improve productivity and efficiency through:

-updating ADP capability
-enhancing information reporting systems
-increasing use of computer selection methods in examinations, collections, etc.
-developing automated collection systems
-developing automated examination systems, and new examination techniques

Clearly, increased emphasis on computer technology will lead to reductions in the labor intensity of certain IRS operations. Our Congressional budget submission requests resources to modernize the tax processing operations of service centers and the National Computer Center, and to accelerate plans for automation of tax enforcement operations.

The attached strategy papers outline the Service's ADP plans and strategies. The implementation of these and other ADP programs cannot help but enhance the Service's overall productivity and efficiency--leading to improvements which would affect, but not be limited to, the area of taxpayer compliance.

Internal Revenue Service ADP Plans and Strategy for Tax Systems

Introduction

The tax administration system is dependent on ADP to function. However, the computers presently installed in our Service Centers and the majority of the systems at the National Computer Center (NCC) are obsolete. For example, systems such as the Integrated Data Retrieval System (IDRS) are at capacity and are unable to accept new applications. The Direct Data Entry Systems (DDES) in the Service Centers are experiencing malfunctions that are related to equipment age. The Service must continue to modernize its ADP equipment or the tax processing system will suffer severe breakdowns and continue to be unresponsive to the needs of the functional areas.

Expenditures also must be increased substantially to acquire data processing systems to increase productivity by increasing our output per staff year and by decreasing our need for people. Heavy labor-intensive areas and those areas in which technical personnel are tied down with clerical tasks must be automated wherever possible.

Objectives

Our objectives are: maintain a highly skilled data processing work force capable of responding to changes in the tax law; continue to modernize the Service's computer resources through acquisition of advanced systems for NCC; install new Service Center equipment in remaining sites and continue with program conversion; increase the use of data processing at the district and regional level to support enforcement personnel; convert to the microfilm replacement system to reduce current labor-intensive operations and enhance security and privacy considerations; replace DDES with a modern, reliable system that will measure data transcription productivity; replace labor-intensive activities with ADP equipment; ensure the Service stays current with the state-of-the-art for all ADP equipment; and provide a responsive management information system that will enhance the decision-making process.

Plans for Implementation

In FY 1979, the Equipment Replacement Program (ERP) was started to modernize the computer hardware that supports the tax system. This three-phased program involves replacing the main computers in the Service Centers; redesigning our accounts research system, now supported by microfilm; and modernizing the equipment at NCC.

The equipment contract for Phase I has been awarded for the procurement of eleven systems. Significant additional funds are required in FY 1983 to complete this contract. During Calendar Year 1981, conversion work on the Service Center data systems began in earnest and will continue into FY 1985. Most of the 2300 programs and 3.6 million lines of coding covered by the ERP are in the Assembly Language and must be redone in COBOL. The Assembly Language used on the old Honeywell 2050A and Control Data 3500 computers is not supported by any manufacturer and forces IRS to convert to a new language. COBOL was chosen since it is the language that is most widely accepted and supported by the computer industry.

The implementation of the system to replace microfilm (Phase II) will result in estimated net savings of $62.3 million, part of which is 837 staff years, and will, for the first time, permit electronic communication between NCC and the ten Service Centers. As we move forward with ERP, certain of the aging or obsolete systems at NCC will be replaced with more capable, responsive, modern equipment (Phase III).

It is important to remember that the Service Centers cannot continue to operate beyond the 1983/1984 time period due to ADP capacity shortages. Indeed, the District Offices will be without the Integrated Data Retrieval System, which is so vital for their daily operations. Therefore, continued support for ERP in the budget process is very important. Total costs for ERP through FY 1987 are estimated to be 1,393 staff years and $175.4 million. Of this amount, net increases of 78 staff years and $8.4 million are requested in the FY 1983 Congressional Budget.

While the Service will be making progress in upgrading the primary tax processing systems, it will also need to concentrate on all equipment areas that could cause a serious interruption if they fail, do not support productivity initiatives, or do not provide state-of-the-art support to the functional areas. High on this list for critical replacement is the DDES in the ten Service Centers. Failure can idle over 400 employees in a center. The present system is obsolescent and parts are very difficult to obtain. Additionally, maintenance costs for these obsolescent systems have increased twenty-five per-cent over the last two years.

A distributed system composed of a network processor linked with local data entry processors will give IRS the equipment and flexibility to realize significant savings. With new equipment and improved software and design techniques, the productivity of each data transcriber will increase. While industry rates of 10,000-15,000 keystrokes per hour may not be obtainable, improvement (our present rate is 6,500 keystrokes per hour) should be attained.

The cost figures of the study show a minimum savings of $3,743K through FY 1989 if we begin replacing these

DDE systems in FY 1983 with a distributed input system (DIS). ADP equipment and facilities costs for DDES replacement with a DIS are $43,171K through FY 1989.

Much of the Service's processing and monitoring of accounts receivable and non-filer cases are computerized via the Master File and Integrated Data Retrieval System. However, there are many additional stages in the Collection function which lend themselves to further computerization and, thus, would enable our personnel to deal directly with the computer and resolve cases without unnecessary and time-consuming paperwork. Our research and experience indicate that much of the private sector uses computers to control accounts receivable in virtually paperless systems. The Automated Collection System (ACS) now being developed has excellent potential for increasing productivity, reducing staff and space requirements, and speeding up the collection of tax dollars from delinquent taxpayers. Resource requirements are estimated to be $186 million through FY 1987. Of this total amount, increases in the FY 1982 Supplemental are $4.5 million. The FY 1983 Congressional Budget contains net increases of $32.3 million.

In the Examination area, the Automated Computerized Examination System (ACES) offers many of the advantages for our Examination function that ACS will provide for our Collection function. The system for Examination will give examiners terminal access to tax return data and other information. It will schedule workload, generate reports and letters, and replace several current or planned management information systems. Benefits of about $250 million per year could result through the reapplication of staffing savings to additional examinations. Resource requirements are estimated to be $77 million through FY 1987. The FY 1982 Supplemental and FY 1983 Congressional Budget contain net increases of $1.5 million for continued development and design of ACES.

In FY 1983, increases in ADP funds are being requested also to implement the Optical Character Recognition of Federal Tax Deposits system, which will be tested in FY 1982. Introduction of the state-of-the-art technique to scan the data for input rather than keystroking will save scarce personnel resources and provide for quality input. The entire area of optical character recognition has great potential for reducing costs of document processing in other areas. For example, OCR workload will increase 40% in FY 1983 with the addition of Form 1040ES. Also, Form 1040A will be tested in one district and, if successful, implemented Servicewide.

To achieve these savings, it will also be necessary to replace the currently installed High Speed Non-Impact Printers with a system capable of printing other turnaround documents and labels in a highly reliable OCR mode. The replacement of the currently installed Service Center high speed printer will also overcome technological deficiencies experienced since they were installed, such as poor or substandard paper quality, paper shortages, and incompatibility with folding and stuffing equipment. Resource requirements through FY 1987 are $35,478K for implementing Optical Character Recognition of Federal Tax Deposits and replacing our High Speed Non-Impact Printers in FY 1983. Of this amount, increases of $6,297K are requested in the FY 1983 Congressional Budget.

By FY 1983, the terminals connected to the Service Center computer system will be approximately 10 years old and in need of replacement with newer models. Additionally, we will have completed tests begun in prior years of a broad range of new technology devices aimed at improving human interface with computer systems.

These devices include touch terminals which simplify data entry and eliminate transcription of data from the return document to an edit sheet. Also to be installed on a limited basis will be voice recognition devices and intelligent terminals capable of performing validity/consistency checks prior to entry of the data into the main system.

Expenditures for all types of terminals to support tax processing are estimated to be $49 million through FY 1987. Increases of $4.2 million are in the FY 1983 Congressional Budget for replacement of our obsolete terminals and to initiate replacement of the currently installed manually tested old style modems. These modems were installed with the initial IDRS in 1971.

For the next several years (through 1984) our tax systems personnel resources will be completely occupied with conversion of computer programs to the new equipment. The majority of our people will be writing programs for the new computers, testing the converted system and installing these data systems at the ten Service Centers.

In 1982, we will establish a cadre to outline plans for the redesign of the tax processing system and establish plans for the next generation of equipment. The system that we will have in place at the end of the ERP (1985) is, in design, basically the system that was started in 1962. Over the years, efficiencies have been introduced and the conversion to the UNIVAC 1100 has allowed us to correct some processing difficulties and awkwardness. However, we need to conduct a comprehensive review of the entire tax processing system in light of the technical advances that have been made in the areas of system design, file structures, top down programming, and data communications.

Coupled with the systems design review will be a comprehensive review of the latest hardware technology to determine if old constraints (mass storage capacity) and restrictive processing procedures are still applicable. It is anticipated that the cadre group would explore such possibilities as linking DDES to the Service Center

Replacement System (SCRS) and SCRS to NCC; on-line error detection and correction; on-line, immediate access to master file account data as opposed to overnight access and others. We would be looking to this group to provide the basis and architecture for the tax processing system for the 1985 to 1995 period. Funds for this endeavor, which could include a test/demonstration project and could require $10 million in FY 1984, will be requested in the FY 1984 budget submission. FY 1985 costs could approach $100 million with additional substantial funding needed in the out years. (These estimates are very tentative at present. However, staffing costs will be minimal since design will probably be done by contract.)

Internal Revenue Service
ADP Plans and Strategy
for
Automated Information Systems

Introduction

The automation of information processing systems in IRS is receiving increased emphasis. The Service is committed to increasing the productivity of its staff in order to free resources needed for tax administration. To use staff effectively, managers must have the information to make informed, timely decisions. Likewise, clerical, technical and professional employees must be relieved of those repetitive, labor-intensive activities that can be done cheaper and faster with computers.

Recent advances in information processing technology will facilitate efforts to modernize the Service's information processing systems. The Service has completed plans for the replacement of tax administration computer systems. The culmination of this planning effort, and the separation of information systems support from tax systems responsibilities, set the stage for the Service to concentrate on development of information systems. The technology and skilled staff are now available to develop integrated measures of productivity and the cost and yield of Service operations; automated systems to replace more costly, labor-intensive methods of production by technical and professional employees; and cost-effective automated systems to replace manual clerical operations.

Objectives

IRS automated information systems objectives are:

--to improve planning and decision-making by improving the scope, timeliness, and accuracy of data available for managers;

--to make pertinent information accessible to all managers and provide them with automated tools for analyzing this information;

--to cut manual processing in labor-intensive operations and reduce the number of clerical tasks performed by technical/professional personnel in order to increase productivity;

--to take advantage of state-of-the-art technology for all automated information systems.

Achievement of these objectives will support the Departmental/IRS objective of increased productivity, the second of six goals identified by the Commissioner in the 1981 Strategic Plan.

The automated information systems program is divided into three broad areas. These include:

--Management Information Systems (MIS) which provide information on resource utilization and workload requirements;

--Office Automation which provides capabilities or "tools" to reduce the paper processing requirements common to all offices and to perform routine office functions, thereby minimizing labor-intensive processes;

--ADP Support Services which provide the underlying technical support required to develop, implement, operate, and make available the capabilities developed within the other areas.

These areas are dependently related. Any given application may require the capabilities of more than one area. MIS systems can be used to monitor or indicate the sequence of processing for office automation systems. Office automation systems can extract data from MIS systems for document development and transmittal. It is anticipated that, as time elapses and technology improves, the individual areas will merge using an integrated hardware and commuications network.

Current estimates indicate that the automated information systems program (exclusive of requirements for large customization projects) will require $72 million through FY 1986. Of this, 64 staff years and $3.3 million are in the FY 1983 Congressional Budget.

Management Information Systems (MIS)

The MIS area encompasses the information and administrative systems which support every IRS organization in the control and direction of work programs and the accomplishment of repetitive administrative tasks. During the 1980's, the Service's information systems will be transformed from their current status-reporting role to a decision-support role. IRS systems must be capable of supporting the analytical, planning, and decision-making processes of managers throughout the Service. Likewise, administrative systems will be viewed in terms of their effectiveness in supporting administrative functions and maximizing staff efficiency. In many cases, these systems must be re-engineered to address overdue improvements and data base management. Naturally, the evolving information processing technology will profoundly influence the shape of future information and administrative systems, and the success of our MIS initiatives in the 1980's will largely depend on incorporating this technology in existing as well as new applications.

A cornerstone of our strategy is the implementation of the Servicewide Decision Enhancing Management Information System (DEMIS). DEMIS is intended to be the Service's major overview system and is projected to be initially implemented throughout the Service late in FY-86. By incorporating data from all functional information and administrative systems, DEMIS will become the primary tool for integrated analysis, planning, and decision-making by managers. Through FY-86, the development effort for DEMIS, including phase one, will require 91 staff years and $3.04 million in hardware, telecommunications, and contract support costs.

An initiative in the overview/cross-functional arena is the development of an integrated information system for the Information Returns Program (IRP-MIS). IRP-MIS will provide a common source of information regarding the IRP products, resources, and yields across the Returns Processing and Accounting, Collection, and Examination functions. Service managers will be able to assess IRP results and consistently set program tolerances at optimal levels to allocate resources efficiently among IRP-related processes in the various functional areas.

During FY-82 alternatives for the system are being defined, analyzed, and costed. Approval of the recommended alternative is expected late in FY-82. However, the major systems which must interface with IRP-MIS operate at the Service Centers and are undergoing conversion through late FY-84. Therefore, implementation of IRP-MIS is not planned until mid-FY-85. Staff resources required through FY-86 to implement an IRP-MIS are estimated to equal 52 staff years.

The second prong of the MIS strategy involves enhancement of the Service's functional information and administrative systems. In addition to enhancing information processing within their respective areas, these systems must also incorporate a Servicewide perspective to achieve consistency in data, to resolve existing information gaps, and to support the Service's overview and cross-functional systems.

The bulk of the FY-82/FY-83 redesign and enhancement efforts will be devoted to the primary administrative functions currently supported by the Four Phase equipment located in the Regions. Replacement of this hardware in

FY-84 with large capacity minicomputers will provide the Service with several opportunities for enhancement. Initially, current applications will be converted and enhanced. Secondly, the replacement hardware will serve as the nexus of Regional networks significantly altering the character of Regional data entry/processing for these systems. Resources for the conversion of Four Phase software are estimated at 9 staff years and $450,000 for contract support. Conversion is scheduled for completion no later than FY-84.

These major initiatives in the MIS area coupled with ongoing system operation and maintenance represent a significant program area within automated information systems.

Office Automation

Office Automation Systems provide the means for eliminating or reducing labor-intensive office activities. These systems can be divided into two groups: general office automation systems that automate activities common to all offices, and customized office automation systems that automate a particular professional or clerical activity required by a particular office or functional area. Our goal is to provide both generalized and customized office systems to IRS users Servicewide.

To make general office automation capabilities available Servicewide, a phased approach to implementation will be applied. In the first phase, pilot office automation project areas will be identified in the National Office and at field locations according to the needs of the office and economic feasibility. Opportunities for immediate improvement of office functions through short-term office automation solutions will be selected and implemented based on maximizing benefit/cost ratios to the Service. These interim solutions will be designed to provide valuable capabilities in a very short time frame while still allowing expansion and/or absorption into a fully integrated office automation system at a later date.

In the second phase of implementation, the expansion of general office automation capabilities in pilot project areas will be based on complete integration of automated functions into a total system design for all computer hardware, software, and communications supporting IRS offices for nontax purposes. The resulting office automation system will support multiple office functions and provide local office interfaces within Servicewide information and administrative systems while minimizing duplication of equipment and incompatible system configurations. Development of complete office automation systems will include baseline studies of office functions and activities, feasibility assessments and cost/benefit analyses, complete hardware and software system design, procurement, system implementation, and evaluation. Based on the general office automation systems implemented in pilot project areas, standardized procedures will be developed, effective design strategies identified, and a strong technological base built for implementing these systems throughout the Service.

The pilot areas will be expanded and office automation capabilities will be provided Servicewide by initiating systems in the field and National Office according to plans and procedures developed during FY-82 and early FY-83 as part of the pilot project process. Requirements for implementing the general office automation program through FY-86 total 90 staff years.

Over the next several years, it is expected that the number of office automation projects requiring customization will increase as the cost of mini and microcomputers continues to decline. Consequently, we feel that wherever possible, previously developed software should be used to decrease the time and cost of software development. In order to accomplish the goal of using previously developed software wherever possible, a customer support group will also have the responsibility for acting as an IRS clearinghouse on previously developed software.

The requirements for customer support and the customization of small applications and systems through 1986 total 78 staff years and $70,000 for the purchase of software.

ADP Support Services

The ADP Support Services area will provide the processing environment and resources required to implement the MIS and Office Automation areas and ensure that the environment and resources are used effectively and efficiently. The foundation of the processing environment will be a Servicewide integrated network of hardware, software, and telecommunications with capabilities for the following functions:

--document preparation;

--mail, message, and data transmission;

--information collection, storage, retrieval, and processing;

--quantitative analysis;

--recordkeeping (of all types); and

--automated time management (calendars, tickler files).

The network will eventually consist of local networks at virtually every IRS site and a backbone (global) network to provide communication between all of the local networks. The global network will be flexible enough to handle a wide variety of machines and protocols.

During FY-82 and 83 a number of local networks will be established such as the office automation networks for Taxpayer Service, Inspection, and Data Services, and the Commissioner's Mail Tracking System. Also, during FY-82, a contract will be awarded for the purchase of small scale computer equipment for local area networks. These local networks will be installed between FY-83 and FY-85. During FY-84 a contract will be awarded for replacement of the Four Phase computers located in the Regional Offices. All of these computers and local networks will be configured for eventual integration into the IRS network.

A feasibility study and system design for the global network will be completed in FY-83. Procurement will be completed in FY-85. Phased installation of the global network will be completed in FY-86.

Other ADP Support Services efforts of a continuing nature include:

--establishment of a Data Dictionary/Directory as a central repository of information about management systems and data;

--maintenance of a software and technical information library which includes information related to local applications, commercial software, technical publications and training;

--training of ADP staff;

--an ongoing technology assessment program; and

--user training and assistance.

Objective Environment

Besides the primary objective of improving productivity, the programs and projects identified above are intended to build a totally integrated and compatible processing environment which will remain technologically current to support the administrative and processing requirements of the Service. Automated processing capabilities will be provided to almost every employee at every major post of duty through the use of multifunction work stations. These work stations will be equally efficient in data entry, storage, retrieval, analysis, manipulation, and the dissemination of data and documents, and will support MIS and office automation systems. Their inter-connection through a common data communications network will permit rapid access to localized and national data bases, thus increasing the scope and timeliness of the data and integrated planning approaches without undue risk to individual privacy and the security of taxpayer information.

The interaction between the operators and systems will reduce and speed up the data entry and correction requirements. The emphasis on "user friendly" packages for query processing, statistical and trend analysis, and simulation and scheduling will permit users to focus their attention on critical issues and relieve them of dependence on professional programming assistance. Most importantly, this environment will allow the Service to realize the productivity increases possible through such work enhancing tools.

In short, our purpose is to develop an environment where, in the not too distant future, automated information processing tools will be viewed as natural elements in the performance of business tasks and will be as common as dictionaries, calculators, or telephones.

CRUDE OIL WINDFALL PROFIT TAX

Question: The Crude Oil Windfall Profit Tax Act of 1980 has been described as the largest and most complex tax ever levied against a U.S. industry. Administration of the Act is a major new responsibility for IRS which had to assume the responsibility with no increase in resources. Thus, IRS shifted several hundred experienced revenue agents and supporting personnel to the windfall profit tax program from other examination programs.

What has been the impact on voluntary compliance with the tax laws of shifting several hundred experienced agents and support staffing to the windfall profit tax program?

Answer: Due to the complexity of this tax law and the high quality legal and accounting representation used by the oil companies, examination of the oil operators and first purchasers require using experienced revenue agents.

While we cannot measure the impact on voluntary compliance, we believe such a modest shift would have essentially no significant impact on voluntary compliance.

Question: How do actual windfall profit tax receipts compare with congressional estimates? Please explain the reasons for any shortfalls.

Answer:

BUDGET EFFECT OF THE CRUDE OIL
WINDFALL PROFIT TAX, FISCAL YEARS 1980-81-82
(in billions of dollars)

FISCAL YEAR RECEIPTS

	1980	1981	1982
Congressional Estimates			
Gross	5.2	21.0	32.3
Net	3.2	13.4	19.5
Actual or Revised Estimates			
Gross	6.0	23.3	22.1*
Net	3.7	13.8	10.6*

* Treasury estimates

The above figures exclude tax revenues on oil owned by the U.S. Government, and take into account refunds of overpaid windfall profit tax and the reduction in income taxes attributable to the windfall profit tax - the windfall profit tax is deductible in computing income tax liability.

The major cause of the difference between receipts projected by Congress at the time that the tax was enacted and current estimates of the tax is that oil prices have been lower than those upon which the original estimates were based. Other minor differences between estimated and actual tax variables explain differences between the two sets of numbers.

Question: Are there unresolved, fundamental issues which may preclude effective, efficient, and equitable administration of the Act?

Answer: The IRS has encountered difficulties in applying the definition of "property" under the energy regulations for Windfall Profit Tax administration purposes. The IRS has suspended the closing of 3,500 WPT cases because an issue relating to the definition of "property" is unresolved.

Question: The Windfall Profit Tax Act places many new administrative requirements on both the IRS and the oil industry. What kind of regulatory changes can be made to simplify procedures for complying with and administering the tax?

Answer: The windfall profit tax regulations relating to the administrative requirements have not been finalized. Consideration is being given to proposals that would make the administration of the tax less burdensome on the oil industry and the IRS.

For example, consideration is being given to relaxing various requirements with respect to the furnishing of annual information statements by purchasers to producers on Form 6248. The IRS has already reduced the amount of information required to be furnished on this form. In addition, consideration is being given to relaxing the time requirements for furnishing corrected Form

6248. A major concern with these proposals, however, is the effect the changes would have on compliance with the tax.

Question: Can you suggest amendments to the Act which would reduce the administrative burden upon industry and the IRS?

Answer: The Legislation and Regulations Divisions of the Office of Chief Counsel for the IRS opened a project to study legislative proposals intended to provide administrative and technical improvements to the windfall profit tax. The Legislative Analysis Division in the Commissioner's Office is also studying legislative proposals to the Act. At this time, there are two amendments to the Act being considered by the IRS which would reduce the admiminstrative burden of both the industry and the IRS. The first proposal would be to allow purchasers to withhold an amount in excess of the windfall profit amount in making adjustments for a previous underwithholding. The second proposal would be to eliminate the need for a barrel-by-barrel approach to the net income limitation. Under the proposal, a producer would compare its net income for the year from each property to its windfall profit tax for each year from each property. If the windfall profit exceeds 90 percent of the net income attributable to taxable crude oil removed from the property, then the windfall profit tax imposed on the taxable crude oil will be reduced so that the tax in fact imposed bears the same ratio to the windfall profit tax imposed before application of the net income limitation as 90 percent of the net income attributable to the taxable crude oil bears to the windfall profit on taxable crude oil.

Question: Now that the tax has been in effect for about two years, what are the "lessons learned" that Congress should be aware of when considering whether and/or how to tax decontrolled natural gas?

Answer: Legislation that combines concepts from two departments (pricing in Energy and tax in Treasury) leads to almost insoluble questions for the regulation process. Detailed legislation leads to complexity and more detailed regulations which also bog down the regulatory process.

In considering the decontrol of natural gas, simplicity should be the guiding principle. The gas producing business sells and measures natural gas on a volume/British Thermal Unit (BTU) basis. We suggest that a severance/production tax be utilized measured in dollars per 1,000 cubic feet/BTU content. If desired, different rates should be applied based on the time the well was completed.

Question: How does this affect the target revenue amount and the phaseout provision? When is the target amount now likely to be reached?

Answer: The cumulative net budget gain from the windfall profit tax before accounting for the provisions enacted under the Economic Recovery Tax Act of 1981 is estimated to have equalled $89.3 billion for the period 1980 through 1987, on a calendar year liability basis. Recent estimates have not been projected through 1990, but based on the price trend underlying the figures through 1987, the cumulative gain through 1990 would have been appreciably below $227.3 billion. Thus, the phaseout would have begun January 1, 1991. The Economic Recovery Tax Act of 1981 provided reduced tax rates for newly-discovered oil, tax exemption for stripper-well production of independents, an exemption for specified quantities for royalty owners' production, and an expansion of the exemption for production of charitable organizations. These changes, while not affecting the phaseout target or date, reduce net liabilities by $8.6 billion for 1981 through 1987, so that the tax is expected to raise $80.7 billion for that period.

EXAMINATION COVERAGE

Question: IRS' Examination Division secures about 25 percent of its revenue in the two largest corporate income tax classes. This was a recommended assessment of about $5 billion in FY 80 in additional tax and penalties. In recent years, planned audit coverage in the largest corporate classes, where returns are very complex and proposed changes are quite large, has been falling rapidly from around 80 percent to a low of 37 percent in the $50-$100 million asset class and 46 percent in the $100 million-and-over class for FY 82.

Why has the coverage in large corporate tax classes been dropping? What coverage is planned for FY 83?

Answer: "Coverage" is the percentage of returns filed that are examined. Thus, as in other examination classes, where resources are relatively stable coverage declines as filings increase. The increasing complexity of examinations increases average time per examination and also contributes to declining coverage. For example, for the two largest corporate classes filings between 1975 and 1982 increased 59%, staffing increased 30%, the number of examinations decreased by 4%, and coverage declined from 70% to 42%. Yield, on the other hand, rose 75%, from $2 billion to an estimated $3.5 billion.

For these large corporate classes, the FY 1983 budget submission, compared to FY 1982, contains an increase in examinations of 11%, from 4,369 to 4,859; an increase in coverage of 3% to 45%; and 3,090 staff-years, an increase of 10% over 1982. Thus, 17% of Examination's technical staffing is in these two large corporate classes.

Question: How much of the revenue is being foregone?

Answer: As part of the Service's FY 1983 and future years revenue initiative, examinations in the two largest corporation classes have been increased to the maximum feasible extent for these years given operational limitations and therefore, in operational terms, there are no additional increases we can make.

Theoretically, if it were possible to raise coverages in one year to their maximum, in the high yield, large corporate classes, we estimate that recommended net additional tax would be somewhat less than $2 billion higher than shown in our FY 1983 request. However, this would dramatically reduce our coverage in other examination classes. In 1983 we project coverage of 45% for these 2 classes together, while our overall coverage is 1.67%.

As in all other Examination program areas, coverage in those two classes has not kept pace with increased workload over the years. Thus, most examination classes have had cuts in coverage as resources have remained constant while filings have increased. This has especially affected these classes as seen above, even given the large increase in resources.

Question: Many of the recent tax law changes significantly affect the corporate income tax. What impact will the ERTA of 1981 have on expected adjustments in corporate tax classes?

Answer: We do not expect the ERTA to materially affect adjustments in corporate tax classes. Treasury's revenue projections show that voluntarily paid corporation income tax receipts, even after the full impact of the ERTA, will remain relatively constant through 1986. The Accelerated Cost Recovery System (ACRS) provision of the ERTA dealing with depreciation accounts for 75% of Treasury's projected tax reduction. For several years prior to the ERTA, the Service emphasized planning and development of only non-routine depreciation and other "timing" issues; our examination efforts have been directed toward issues that capture "permanent" revenue. Therefore, the ACRS provision is expected to have a minimal impact on adjustments. On the other hand, the "leasing" provision of the ERTA is expected to be a productive audit area generating substantial "permanent" revenue adjustments. In summary we do not expect the ERTA to materially impact on adjustments in corporation audits.

Question: What overall coverage will be provided at the requested level of 28,764 average positions? How much additional tax will be returned to the Government?

Answer: Examination coverage in FY 1983 is estimated to be 1.67%.

In FY 1983 we estimate that $10.1 billion will be recommended in additional tax and penalties resulting in eventual assessments of $9.6 billion including interest.

Question: What would be the effect of further examination resource increases--say 30,000 or 32,000 average positions? What would it cost?

Answer: There are practical limitations to the number of recruits that could be hired, trained and absorbed during a particular fiscal year. In FY 1983 an increase of 2,500 staff years would be feasible. The costs related to such expansion would approximate $66 million. In terms of programmatic effect, this would result in about 82,000 additional returns examined raising examination coverage in FY 1983 to an estimated 1.75% and producing an additional half-billion dollars in revenue.

FEDERAL HIGHWAY USE TAX ON HEAVY MOTOR VEHICLES

Question: The highway use tax on heavy motor vehicles was established pursuant to the Highway Revenue Act of 1956 to provide monies for the Highway Trust Fund. This tax imposes an annual charge of $3 per 1,000 pounds gross vehicle weight for most vehicles weighing 26,000 pounds or more. The tax produced $263 million in revenue in fiscal year 1980. Because of problems IRS has in collecting this tax, many believe a more efficient system is needed.

The American Trucking Association believes the tax is being evaded by a high percentage of truckers. Has the IRS conducted any studies on noncompliance? What is IRS doing to locate nonfilers?

Answer: While we have not specifically studied noncompliance with highway use tax, we believe Service efforts under the returns compliance program are effective in detecting delinquency. We purchase a listing (compiled by R. L. Polk and Company from state registration records) which identifies by class and weight those registered highway motor vehicles subject to the tax. We match the list against our records of filed highway use tax returns to discover delinquency in filing the return or underreporting of the amount of tax due.

Question: Many believe some type of State involvement is needed in collecting this tax. What plans, if any, does the IRS have for future State involvement?

Answer: The Service has recommendations under consideration involving State collection of the highway use tax, but has reached no decision as yet concerning any of them.

INTERNATIONAL ACTIVITIES

Question: U.S. tax laws that relate to overseas activities are exceedingly complex and difficult to administer. To effectively audit foreign transactions, IRS needs access to the books and records which support the transactions. Tax treaties with numerous countries, certain provisions of the Internal Revenue Code, and on-site examination in foreign countries give IRS the access it needs in some cases. However, information gathering is still a major problem for IRS. The process is complex and time-consuming and often does not result in the acquisition of the required information.

IRS reviewed the exchange-of-information articles in tax treaties to identify those which need to be strengthened. Have improvements been recommended to the Departments of the Treasury and State so that better information exchange provisions can be negotiated?

Answer: We have recommended that the exchange of information provision override any local laws concerning bank and commercial secrecy. This provision is critical to the Service's ability to obtain relevant and pertinent tax return information. Other methods used to strengthen our efforts with treaty partners include innovative concepts, such as simultaneous audits, industrywide exchanges, spontaneous exchanges, and face-to-face multilateral discussions which foster mutual respect and a spirit of reciprocity.

Question: Specific information requests are channeled through the U.S. Competent Authority. This method of access has limited utility, because the foreign country may be precluded from providing the requested information by their internal laws (e.g., commerical and bank secrecy laws). How many cases were settled through the U.S. Competent Authority during FY 1981 and what was the tax revenue impact?

Answer: The U.S. Competent Authority initiates requests to U.S. treaty partners for information when asked by our district IRS offices. Information requested is needed in connection with an ongoing examination in the district. Requests may also be initiated to obtain information for use in U.S. court proceedings.

During FY 1981, the U.S. Competent Authority contacted our treaty partners for information and responded to our field personnel in 98 cases. We do not accumulate data on tax revenue generated by this information.

Question: Sections 905, 964 and 6001 of the Internal Revenue Code grant IRS authority to require that appropriate books and records be made available to IRS in the United States. Section 905 provides that foreign tax credits are not allowed unless information necessary for verifying and computing the credit is provided to IRS. A 1977 study indicated that these Code sections were not widely understood or used within IRS and that, when records were requested but not provided, enforcement action was seldom taken.

What training do IRS agents receive in using these Code Sections to obtain information on foreign transactions? How often does IRS use these Sections to obtain needed information? Are these adequate or are additional record-keeping requirements needed?

Answer: International Issues Specialist Training provides international examiners in-depth training in Section 905, 964 and 6001 of the Internal Revenue Code. There are no statistics or records to show how often these Sections are used. We feel these sections are adequate in dealing with domestic parents and their foreign operations. However, international enforcement could be strengthened if the reporting requirements equally applied to domestic subsidiaries and branches of foreign parents.

Question: Does noncompliance with these Code Sections automatically result in the disallowance of the foreign tax credit? How often does this occur? Are the penalty provisions for noncompliance adequate?

Answer: These Sections do not state that the foreign tax credit will be disallowed; Section 905 states that the taxpayer must furnish proof to have the credit allowed. There are no statistics or records to show how often these Sections are used. There are no penalty provisions applicable to this area.

Question: IRS' Office of International Operations (OIO) is charged with administering the tax code for individuals with foreign earned income. In doing so, OIO examines returns, collects taxes and enforces the tax code abroad.

Section 111 of the Economic Recovery Act of 1981 (P . 97-34) substantially changes the tax code as it applies to U.S. citizens who reside abroad. For example, beginning with tax year 1982, U.S. citizens living abroad may exclude $75,000 of foreign-earned income from U.S. taxable income. This amount will increase $5,000 per year until it reaches $95,000 in 1986. This exclusion will replace the multiple deductions allowed on foreign-earned income through the 1981 tax year.

What effect will the large foreign-earned income exclusion have on tax revenues generated from U.S. citizens residing abroad?

Answer: The tax effect will depend upon the country in which the taxpayer is a resident. If a taxpayer lives in a high tax rate country, (e.g. United Kingdom) the change in tax revenue will be minimal. The taxpayer will not be able to avail himself of foreign tax credits as he could before the exclusion. A taxpayer in a low tax country (e.g., Saudi Arabia) will save taxes under the new law, as less U.S. tax is paid and no taxes are charged in the host country. As to overall tax impact, the IRS has made no revenue estimates.

Question: What tax effect will the exclusions have on the companies employing U.S. citizens abroad.

Answer: Companies employing U.S citizens abroad may benefit by the exclusions in that it may be easier to recruit employees to work overseas.

Question: How will the changes in the law affect OIO's staffing and other budget needs with respect to its examination, collection, criminal investigation, and taxpayer service functions?

Answer: Regarding Examination, the ERTA exclusion may ultimately reduce the audit potential of returns for which income earned abroad is the major source of income. However, we do not believe the new exclusion will have any immediate effect on the examination program for the following reasons:

1) The first examination under the new law will not be conducted until late 1983 or early 1984. Comprehensive results will not be available until late 1984 or early 1985.

2) Past experience indicates that despite deductions and exclusions, individual income tax return examinations conducted by OIO have a higher yield per case than the U.S. average. In FY 1981 OIO's yield per return was $1,010 compared to $579 for the national average.

Consequently, we intend to move cautiously in adjusting our enforcement effort in this area until the effect of the ERTA can be assessed.

Question: What is the voluntary compliance rate for U.S. citizens abroad?

Answer: The IRS has no reliable estimate of voluntary compliance for U.S. citizens residing abroad. However, in 1981 OIO's "no change" rate was 17% vs. 23% for the national average. This would indicate a relatively lower degree of compliance for

U.S. citizens residing abroad. This trend has been consistent for the past five years.

Question: What has been the percentage of examination coverage of returns filed by U.S. citizens abroad during the past three fiscal years?

Answer: 1981 - 5%
1980 - 3%
1979 - 3%

Question: Do you expect the percentage to change under the new law?

Answer: For the time being, we anticipate that coverage will remain within the 1979-1981 range.

Question: Will the change in law from deductions to exclusions simplify OIO's audits of U.S. citizens residing abroad? If so, will the time per audit (direct examination time) decrease? If time per audit decreases, will examination coverage increase (more audits) or will staff and resources be reduced?

Answer: Based on our experience from a previous law change from exclusions to deductions, time per examination increased. Therefore, we anticipate that the changes from deductions to exclusions will simplify OIO audits to a certain extent. Time per audit should decrease somewhat and we will be able to do additional audits within existing resource levels.

Question: What will it cost OIO to train Examination, Collection, Criminal Investigation and Taxpayer Service personnel in the new law?

Answer: Regarding Examination for the next several years training costs will probably increase since both the old and new laws must be covered in training. Beyond FY 1984, we assume training time will return to previous levels, with exclusion training offsetting deduction training.

LEGAL SERVICES

Tax Court inventories are at historically high levels and caseload per IRS attorney is growing. Yet IRS attorney staffing is to be reduced by 60 staff years from current levels.

Question: What will be the impact of slated attorney staff reductions on the taxpayer's right to a prompt resolution of his tax controversy?

Answer: We are making every effort to manage this workload within the resources budgeted to us. Notwithstanding substantial increases in attorney productivity, it is expected that the staff year reduction will increase our already heavy backlog by approximately 1350 cases. We do not anticipate that this reduction will severely impact the taxpayer's right to a prompt resolution of his case, but the ability to meet with an attorney will be proportionately reduced.

Question: What will this staffing reduction do to IRS' effort to close down abusive tax shelters?

Answer: In the tax shelter area, our strategy for the upcoming fiscal year will be to emphasize settlement of cases in the light of prior judicial precedents. Litigation will be used on a somewhat more limited basis than in earlier years, with the focus of litigation being on shelters currently being marketed. Because the tax shelter program is a priority project, this level of staffing reduction will not have a serious effect on our litigating efforts to close down abusive tax shelters, but will effect our ability to settle a relatively larger number of cases.

Question: How will other legal responsibilities be affected?

Answer: As a result of the recent reorganization of the Chief Counsel's Office, we are in the process of reviewing and modifying the interrelationships and procedures between Appeals, Technical, and and Counsel. We are looking forward to streamlining our newly combined organizations to achieve a more effective and efficient operation. However, in the context of expected case receipts in FY 1983, we will see some increase in case inventories. Our lower priority programs will be most affected by a 60 staff year reduction.

Question: What will this do to IRS' efforts to issue rulings and regulations in a more timely manner?

Answer: The issuance of rulings and regulations receives a high priority within the Office of Chief Counsel. Our procedures for the handling of regulations has recently been modified to speed up the flow and at the same time still maintain the quality. Since these projects are given a high priority, we believe the reduction will only have a small impact on our efforts to issue them.

SIMPLIFICATION OF TAX FORMS AND INSTRUCTIONS

In response to the mandate of Section 551 of the Revenue Act of 1978 and recommendations in a 1978 GAO report, IRS awarded a $1.9 million contract to a group of research, design, and readability experts to simplify the individual tax forms and instructions.

Question: We understand that the new forms will not be in the hands of taxpayers until at least 1984. Why is it taking so long to accomplish this task?

Answer: A substantial proportion of the time-to-date has been spent in the basic development and small scale testing of an alternative form package. It was also recognized that operational testing of this package is necessary to insure that we are indeed proceeding in the right direction. This testing is being done as part of the Tax Year 1981 filing period of which we are now in the final stages. Data from this testing will be completed and analyzed by October of this year. Due to lead time constraints in advance contracting for publication and distribution of Tax Year 1982 forms to be filed in 1983, as well as lead time for new computer programming requirements, we will be unable to meet the Tax Year 1982 cycle and will have to concentrate decisions and subsequent actions to Tax Year 1983 individual returns filed in 1984.

Question: How many of the current individual income tax forms and instructions will be simplified under the current contract?

Answer: Under the current contract - as modified - the contractor has delivered a Short Form Package system. These packages are equivalent to the existing 1040A package. This form affects approximately 40 million taxpayers (of an estimated 100 million in 1984).

In addition, the contractor has developed and delivered an "intermediate" tax form package which would apply to approximately 20 million existing 1040 filers. This package has not been fully tested, nor has it been revised to reflect current law.

Question: Will the remainder of the individual forms and instructions be simplified? When? By whom?

Answer: If the contractor's recommendations prove to be valid and are accepted by a control group comprised of Service executives, IRS will revise forms and instructions based on dual criteria: volume of use and class of user. The high volume individual forms will be revised first and the lowest priority will be given to low volume corporation forms and instructions. This effort has been projected to take 4-6 years for all 350 forms, with the majority of individual forms revised within 3 years.

Question: When does IRS expect to make its final recommendations to the Congress on tax form changes?

Answer: Our current plans provide for a report to Congress to be made later this year on the simplification efforts to date and subsequent efforts to be made.

Question: Will the forms make it clear to widows and widowers that IRS considers them "single" even though they do not consider themselves to fall into this category (especially after many years of marriage)?

Answer: The contractor has clearly highlighted and clarified the appropriate marital status that widows and widowers should use for computation of tax.

SPECIAL COMPLIANCE PROBLEMS: GENERAL

IRS seems to be facing an increasingly wide array of tax compliance problems such as abusive tax shelters, tax protesters, underreporters and non-filers. It would seem that each of these problems should be addressed on a priority basis.

Question: How does IRS manage to do this across all its organizational lines?

Answer: These and other compliance problems are addressed through prioritized program plans contained in annually-issued program letters. In instances where more than one function may be involved in combatting a particular compliance problem, the involved functions' program letters would address the need for coordination with the other functions.

While these annual program letter guidelines are being carried out, new information may cause previously set priorities to be adjusted, as was the case when the highly publicized W-4 abuse situation arose in Flint, Michigan. Typically, such significant threats are quickly brought to the attention of the National Office, where they are analyzed by the top executives of involved IRS functions. When a decision is reached on how to deal with a potential threat, these top functional managers then commit the necessary support from their function to effectively combat the potential threat.

Question: Would a better approach be to name program managers or coordinators at the National level to have IRS-wide coordinating authority and responsibility for such programs? If not, why not?

Answer: Responsibility at the National Office for coordinating the Service's response to the type of compliance problem mentioned will usually be given to an Assistant Commissioner in charge of one of the Service's compliance functions -- Examinations, Collection or Criminal Investigations. Current practice often results in the designation, by one of these Assistant Commissioners, of a national program manager or coordinator who is responsible for multi-functional coordination on a day-to-day basis. However, ultimate accountability for successfully countering the compliance problem remains with the designated Assistant Commissioner.

Question: How does IRS determine the significance of special compliance problems?

Answer: The Service considers two basic factors in determining the significance of special compliance problems, dollar magnitude and voluntary compliance threat.

The number of tax dollars involved is obviously of major concern. If a particular compliance problem contributes a significant portion of the total tax gap, then the Service will address such a problem as a priority matter. The principal tools used by the Service to estimate the dollar magnitude of various compliance problems are the Taxpayer Compliance Measurement Program (TCMP) and other research efforts targeted to measuring particular types of noncompliance. These efforts attempt not only to measure the overall size of problems, but also to identify their characteristics so as to suggest ways the Service can operationally deal with them. One good illustration is the underreporter problem. In addition to providing estimates of the overall size of the problem, TCMP and the Tax Gap Study analyzed the types of taxpayers and the sources of income involved. This type of information provides the basis for developing discrete program initiatives, each designed to address a particular component of the overall problem.

Besides dollar implications, the other important consideration is the threat to voluntary compliance that a particular problem poses. A noncompliance problem that has the potential to seriously erode the voluntary self-assessment tax system will be addressed before other problems that may involve more tax dollars. Two recent examples where compliance considerations predominated in the Service's response to a problem are the fraudulent W-4 and the tax protester movements. In these instances, the Service recognized that unless checked, these problems could negatively affect the tax withholding system, a cornerstone of tax administration. The Service, therefore, moved quickly to deal with these problems even though at the time they involved relatively few tax dollars.

SPECIAL COMPLIANCE PROBLEMS - TAX HAVENS

Question: An IRS study of the offshore tax haven problems was issued in January 1981. According to the study, legal and illegal use of tax havens has increased and tax haven entities are increasingly diverting capital away from entities formed in countries having highly developed tax systems. The study presented numerous legislative and administrative recommendations aimed at improving compliance in this area. As a result of the tax haven report, IRS initiated two additional studies which further analyzed the report's recommendations. The results of these two studies have not been released by IRS.

What actions have been taken on the recommendations made in January 1981 Tax Haven Report? What is the status of the two IRS studies undertaken in response to the Tax Haven Report?

Answer: The recommendations made in the Tax Haven Report can be divided into two broad categories - administrative, procedural and organizational recommendations; and legislative, treaty, and technical recommendations. Two Study Groups were formed by the IRS to review these categories.

On the administrative side IRS has reorganized the Office of International Operations to improve communication and coordination; has increased the number of international examiners by 20% to give more coverage to tax haven cases; and has given tax haven cases top priority in the International Enforcement Program.

On the technical side, IRS recently submitted its analysis of the study groups recommendations to the Assistant Secretary for Tax Policy. The major developments in this area have been the drafting of regulations to establish a "refund system of withholding" for foreign citizens with U.S. income and regulations which allows IRS to direct the situs of books and records where IRS has had difficulty in obtaining information.

Question: One of the recommendations made in the tax haven report was to adopt a refund method of withholding tax on payments of fixed and determinable income to foreign persons to replace the current address method. It has been shown that a refund system of withholding provides greater assurance against the granting of unintended tax treaty benefits and increases the amount of tax revenue to the Government. IRS estimates indicate that the U.S. is losing more than $138 million annually because the address method of withholding taxes allows for widespread abuse and avoidance of U.S. taxes.

Given the apparent advantages of the refund system, why has IRS not made the change?

Answer: The proposed regulations are being approved by Treasury.

Special Compliance Problems - Tax Protesters

IRS defines an illegal tax protester as "a person who advocates and/or participates in a scheme with a broad exposure that results in the illegal underpayment of taxes." Considerable media attention has been directed over the past year to the illegal tax protester movement and IRS' attempts to contain that movement.

Question: In what direction is the movement headed?

Answer: A few years ago the tax protest movement was basically a localized compliance problem for a few districts, located mainly in the southwestern and western parts of the country. Today the movement is growing and flourishing coast to coast. At one time it was promoted and practiced by an identifiable few individuals who mutually shared common philosophical attitudes regarding the constitutionality of taxation. Now, the movement encompasses a wide spectrum of the general public, from all walks of life, regardless of political or philosophical perspectives. In the past, the Service has been able to effectively deal with this problem with only minimum disruption to its varied compliance programs and resources. Now, in facing this growing tide of noncompliance, significant increases in resources, attention, and procedural changes have been necessary.

Today, tax protesters are defined generally as individuals who advocate and/or participate in a scheme, with broad exposure, that results in the illegal underpayment of taxes. These individuals and groups are attempting to disrupt effective tax administration and present a major danger to our voluntary compliance system.

The exact extent and makeup of the illegal tax protester movement is unknown. However, we attempt to measure the growth of the movement on the basis of tax returns and/or protest type documents identified by our 10 service centers.

We identified 7,127 protest returns/documents in 1978 (when we first began collecting data) 12,946 such documents were identified in 1979, 18,225 in 1980 and 27,285 in 1981.

Question: Have there been any major shifts in the types of schemes used?

Answer: Within the illegal tax protester movement our statistics show that the "constitutional basis" objection has been the most prevalent type of method or scheme utilized. For example, the number of returns per scheme show that 2,534 such "constitutional basis" returns were identified in 1978. This represents 39% of the total 6,578 returns identified during that year.

Similar figures for 1981 show 9,256 "constitutional basis" type returns which represents 34% of the total 26,925 returns identified.

However, church-related schemes are the newest and, perhaps, the fastest growing of the protester schemes.

This scheme has two variations. Under the first, an individual purchases ministerial credentials (Mail Order Ministry) and, perhaps, a church charter from the promoter. The person then forms an organization or becomes a branch of another organization, claiming it to be a tax-exempt church. The person's residence usually houses the "church," and his/her family is usually the "congregation." The person contributes up to 50 percent of his/her income to the church and claims it as a deduction, thereby substantially reducing taxes.

Under the second variation, a person takes a vow of poverty, pledging his property and obedience to the orders of the church. The "church" generally requires the protester to retain the current job and continue his/her existing lifestyle. The protester may file a Form 1040 claiming income, but then take an adjustment against gross income for an equal amount. Some protesters show no financial data, stating that they are not required to pay taxes as ministers under a vow of poverty.

There has been an increase in our examination efforts on protester returns. The following schedule summarizes the number of tax protester returns under examination as of the end of FY 79 through 81 and FY 82 through March 31:

	Number of Examinations			
Scheme	FY 79	FY 80	FY 81	FY 82 (March 31)
Constitutional Basis	1,571	2,890	5,317	7,047
Church Schemes	684	2,264	4,037	3,861
Family Estate Trust	1,473	4,584	5,060	4,751
Other	--	--	2,206	6,105
Totals	4,438	11,258	16,620	21,764

Question: How much is IRS spending on the program, for example, in Examinations, Collections, and Chief Counsel?

Answer: The following chart shows the staff-years expended by program in the last two complete fiscal years:

	Staff-Years	
	FY 80	FY 81
Criminal Investigation	128	167
Examination	71	91
Collection	15	23

Although spending figures are not available for Chief Counsel, they do have involvement in assisting in the preparation for prosecution of illegal protester cases.

Question: What is the trend of IRS' resource expenditures in this area.

Answer: The actual expenditures in the last two complete fiscal years reflect an increase in spending on the program.

Question: What additional program resources would be required to keep the protester movement from spreading?

Answer: We do not know if additional resources would keep the protester movement from spreading. As previously stated, we have increased our examination efforts on protester returns and have obtained convictions on Protester Leaders which we feel will act as a deterrent to other individuals considering participation in illegal tax protester activities.

Question: In addition to resources, what additional legislative tools would help you in this area?

Answer:

1. Proposal:

Revise IRC 6103(k)(3) to allow the IRS to disclose tax return information to correct a misstatement of fact for tax administration purposes, subject to the approval of the Regional Commissioner. Currently such a disclosure requires the approval of the Joint Committee on Taxation.

Background:

The credibility of tax protest leaders and their promotion of protest schemes is a principal force in the expansion of the protest movement. In many cases, protest leaders make false claims about their personal tax situations and IRS' dealings with them. For example, it is not uncommon for protesters to claim, publically, on radio or TV that they have not filed returns for a number of years and have done so without IRS action against them. Many times, the IRS will have an ongoing investigation of the taxpayer or will have concluded an examination, but cannot disclose these facts without requesting permission from the Joint Committee. Such a procedure is burdensome and time-consuming, and would render any response by the IRS ineffective because of its untimeliness.

Without effective rebuttal by the IRS, other taxpayers are led to believe the false statements made by promoters and tend to lose faith in the system itself.

2. Proposal:

Amend IRC 6020(b) (dealing with execution of returns by the Secretary), to give the IRS authority to immediately assess and collect tax determined to be due under that Code Section. This authority should apply only when IRS can determine the tax liability through evidence such as information returns (e.g., Forms W-2 and Forms 1099).

Background:

IRC 6020(b) gives the IRS authority to prepare a return for an individual if he or she refuses to do so. Before IRS can assess and collect the tax, however, the Statutory Notice of Deficiency procedures under IRC 6212 must apply. Many tax protesters refuse to file valid returns, forcing IRS to prepare returns under IRC 6020(b). Many protesters exploit the Statutory Notice of Deficiency procedure solely to delay their cases.

3. Proposal:

Amend IRC 7605(c) to clarify IRS authority in the examination of church books of account, specifically, the part of the second sentence that reads ". . . to the extent necessary to determine the amount of tax imposed by this title." Make the statute clear that IRS has the authority to examine church books of account to determine the amount of any tax imposed by the Code, rather than just the tax on the unrelated business income of a church.

Background:

The ambiguity of the above-cited sentence in IRC 7605(c), and the lack of any clear legislative intent regarding the sentence in the statute, has created a great deal of problems for our Office of Chief Counsel. The ambiguity has caused their office to tie up a tremendous amount of resources in interrupting and litigating issues relating to IRS' right to examine books of account, and has caused an equal amount of contradictory opinions in the courts.

A recent District Court decision (U.S. vs. Edwin R. Coates), which IRS is appealing, illustrates the strained and far-fetched interpretation that is possible under that Code Section. The court ruled that IRS regulations on IRC 7605(c) are invalid since they exceed the statutory intent of Congress. In short, the Court ruled that IRS may examine church books of account only to determine the amount of tax and unrelated business income. It, therefore, would preclude IRS from examining church books of account solely for the purpose of determining the exempt status, or for the purpose of obtaining information regarding other individuals' tax liabilities (which IRC 7602 expressly gives IRS the authority to do).

This, and other similar court decisions which can result from a misinterpretation of the statute, is adversely affecting the administration of tax laws in two important areas: the examination of tax protester churches and payments to third parties from churches. If IRS is allowed to examine a church only when there is a basis for believing there is unrelated business income, abuses of tax-exempt status would go undetected. In addition, IRS would be prevented, in the future, from summonsing church books in connection with determining the tax liability of, for example, a church president or minister, abuses by whom are often found in the case of sham protester churches.

Question: How successful has IRS been in convincing known tax protesters to again become voluntary compliers (file correct tax returns and pay their taxes)?

Answer: We have no mechanism in place to measure the degree of success in this area. However, we make every attempt to gain voluntary compliance from the taxpayer.

In situations where taxpayers flagrantly attempt to avoid their tax responsiblities, through the promotion of illegal tax schemes or outright protest, we may initiate criminal investigations in an attempt to bring criminal sanctions against those persons. More importantly, we hope that any convictions will act as a deterrent to other individuals considering participation in illegal tax protester activities.

In terms of statistical results, we obtained tax convictions of 130 illegal tax protesters during Fiscal Year (FY) 1980 and 120 convictions in FY 81.

Recent newspaper articles reported the outcome of criminal cases against church leaders who were marketing a plan whereby taxes can be substantially reduced.

Question: Were these cases a part of IRS illegal tax protester program?

Answer: Although we do not have statistics that show the exact number of cases against alleged "church leaders", we have had several cases involving "church leaders" within the illegal tax protester program. Recent cases concern William Drexler, Sr., founder and self-styled archbishop of the Life Science Church and its Southern California branch, and the Church of Christ. Drexler was sentenced to five years in prison, a fine of $50,000, and five years probation with the condition that he file all tax returns and pay all taxes, penalties, and interest due. Drexler's sentence followed his conviction on November 25, 1981, for 26 counts of federal income tax violation. Sentenced along with Drexler was his son, William Drexler, Jr., who received a prison sentence of two years, a fine of $35,000, and five years probation with the same conditions imposed on Drexler, Sr.; Peter and Barbara Beaumont of Osceola, Indiana were sentenced (along with the Drexlers) to six months each, sentence suspended, and each received a $10,000 fine, and five years probation with the condition that they file all tax returns due and pay all taxes, penalties, and interest.

Question: How successful has IRS been in obtaining convictions in such cases?

Answer: See answers to the two prior questions.

Question: What is the current status of those cases where IRS obtained a conviction?

Answer: Once the criminal aspects of a case are resolved, the case is referred back to IRS for resolution of any outstanding civil tax liabilities.

SPECIAL COMPLIANCE PROBLEMS - TAX SHELTERS

Question: Abusive tax shelters are a special compliance problem frequently cited by IRS.

How extensive is the tax complaince problem which IRS calls "abusive tax shelters"? For example, in your opinion, what proportion of people earning over $50,000 a year is involved in abusive tax shelters? At what income level is the problem most serious?

Answer: Data is not available that would allow us to project the universe of all abusive tax shelters. Nor can we estimate the number of taxpayers earning over $50,000 who purchased tax shelter investments.

However, as of March 1982, we have 255,000 tax shelter returns in various stages of the examination process and an additional 12,000 tax shelter cases docketed in the Tax Court. Out of the 255,000 tax shelter returns in Examination, there are 142,000 individual returns with nonbusiness total positive income of $50,000 or more and 36,000 individual returns with business total gross receipts of $25,000 or more.

Question: How much revenue do you estimate is lost annually because of abusive tax shelters? How did you develop that estimate?

Answer: Using data obtained on one abusive tax shelter area, commodities, from the Taxpayer Compliance Measurement Program (TCMP) of individual returns for 1979 tax year, we project an annual revenue loss of $3.6 billion due to tax shelters.

Question: Examinations of abusive tax shelters would appear to pose particular problems for IRS. For example, a shelter scheme may involve many taxpayers in many States, administrative complexities, and sophisticated manipulations of the tax code and commercial markets.

What can IRS do to overcome these various problems?

Answer: The IRS has made addressing abusive tax shelters one of the priorities of our Examination and Criminal Investigation programs. The ERTA contained new penalties which should begin to cause taxpayers to modify their behavior by introducing a "downside risk" into such schemes. HR 6300, Tax Compliance Act of 1982, contains a number of provisions which would assist us in addressing this abusive area.

Recent initiatives that have been implemented to deal with these problems are:

1) Combined Case Control (CCC) System - This is a computer system that will aid in the identifying of related returns and controlling and tracking of abusive tax shelters.

2) Examination Support Staff/Section (ESS) - ESS units are being implemented nationwide to handle the administrative duties required in examining tax shelters. These ESS units will free examiners and group managers who are currently doing these duties so more time can be spent on actually "examining" tax shelter returns.

Question: What special training, technical assistance, and clerical support are available so examiners can efficiently and effectively examine abusive tax shelters?

Answer: The ESS units mentioned above will be staffed primarily with clerical personnel. The additional clerical staffing for ESS was provided to the field in October 1982.

Tax Shelter training is provided to revenue agents and tax auditors as part of their basic training. In addition, a special training course is provided to those examiners auditing abusive commodity shelters. As new schemes, tax law and court decisions become available, examiners are alerted through our Continuing Professional Education training courses. Technical assistance is available, on an as-needed basis, from the Associate Chief Counsel (Technical) and also we have been able to obtain technical assistance in specialized areas, such as commodities from other Government agencies, such as the Commodity Futures Trading Commission (CFTC).

Question: How does IRS decide the level of resources it will devote to identifying and examining abusive tax shelters? Are all potentially abusive tax shelters identified and examined? If no, why not?

Answer: One of our objectives in the Tax Shelter Program is to identify and examine abusive tax shelters, i.e., those that generate tax benefits that are clearly disproportionate to the economic reality of the transactions. We are continually revising and perfecting our various selection methods for identifying potentially abusive tax shelters.

Since all types of returns (1040, 1120, 1041, 1065, 1120-S) are involved in abusive tax shelters, resouces are not specifically allocated to examining tax shelters. However, with the above stated objective, the resources allocated to the various types of returns are to be utilized in examining tax shelters.

Question: Given the provisions, such as penalties for overvaluation of assets, included in the Economic Recovery Act of 1981, and given IRS' overall efforts to curb abusive tax shelters, what is your outlook for the future of abusive tax shelters? Will they or will they not continue to flourish?

Answer: We feel that the legislative initiatives enacted in 1981 will reduce the number of abusive shelter schemes being marketed and sold. However, it is too soon to determine the extent of the impact.

Question: What additional legislation and/or tax enforcement tools would IRS desire in order to effectively curb further tax shelter abuse?

Answer: Enactment of the current legislative proposals before the Congress on a promoter penalty, single entity concept for partnerships, and daily compounding of the interest rate will assist us in curbing this abuse area. If the current legislative proposals along with the Economic Recovery Tax Act are effective in curbing this area, substantial resources will still be needed to handle the existing backlog of 267,000 tax shelter cases in inventory. Further automation of the administrative duties through improved computer capabilities would allow us to better utilize our resources in this area.

Question: What, if any, new tax shelter abuses do you see developing?

Answer: The history of tax shelters has shown that as one loophole in the law is closed, promoters will innovatively find what they feel is another. It is too early to determine if this history will continue or speculate as to the areas or abuses that might develop.

Question: Could IRS do more to develop a type of "early warning" research program which could identify potential abusive tax shelters in their beginning stages and advise the public that the shelters appear to be abusive and in violation of the tax code?

Answer: The Associate Chief Counsel (Technical) established a Tax Shelter Committee that attempts to identify abusive schemes as they are being sold and publish the Service's position on those schemes. This Committee receives information from the public, practitioners and our field offices on new abusive shelter schemes.

Question: Inflated asset values are a major aspect of many tax shelter examinations. In some cases they may be the only area of abuse or disagreement between IRS and the taxpayer.

Does IRS have enough qualified appraisers and experts, either as employees or on contract, to make professional and timely appraisals of real estate, movies, art works, mining properties, and other assets involved in tax shelter examinations?

Answer: Yes, also contract appraisals are used to supplement our valuations whenever our experts are not available or are not professionally qualified to appraise a specific asset.

Question: One aspect of the abusive tax shelter problem is promoters who move from one shelter area to another.

What, if anything, can be done by IRS to restrict promoters who flagrantly and repeatedly deal in tax shelters IRS considers abusive?

Answer: As stated above, current legislative proposals before the Congress contain initiatives to attack promoters who deal in abusive tax shelters.

Question: Either in dealing with promoters or in other aspects of the abusive tax shelter problem, what additional legislation would IRS find useful in curbing this special compliance problem?

Answer: The Service supports the provisions contained in HR 6300, Tax Compliance Act of 1982, including entity treatment of tax shelter partners.

UNDERGROUND ECONOMY

Use of bartering exchanges has received a lot of attention as one emerging part of the underground economy.

Question: What is your assessment of the magnitude of the bartering exchange problem? Can IRS deal effectively with those members of bartering exchanges who are not reporting taxable transactions?

Answer: The IRS does not have its own assessments of the magnitude of the total bartering exchange problem. According to estimates of the International Association of Trade Exchanges, the total volume of barter exchange trade has increased from about $100 million in 1973 to over $350 million in 1981. This amount of barter mainly represents transactions by individuals and small businesses. Since we have not been able to gain access to any documents substantiating these estimates, we cannot comment on their validity. It is widely believed that barter among major corporations, whether through exchanges or not, is much larger. Whatever the volume of barter exchange activity may be, it is not clear how large the "problem" is. IRS has no systematic information on the degree to which barter transactions are not reported. Nor do we know, for the aggregate of barter transactions, the degree to which the income arising in those transactions is understated for taxation purposes.

Question: Tips are another area of continuing concern in the underground economy.

What is the status of IRS' discussion with casino dealers in Nevada to get them to voluntarily report tips?

Answer: The Reno District developed and implemented the Compliance Reporting Program in an effort to obtain the highest degree of voluntary compliance (on the part of casino dealers) while committing a minimum of resources. Historically the compliance level of reporting tips and tokes by dealers has been extremely low.

Beginning in 1972 the district developed a formal compliance program directed at tip earners. Standardized methods and auditing techniques were designed and the number of examinations were increased to where almost 2,000 dealers were examined in 1981. In spite of these efforts the reporting level of tips remains low. Consequently, the district is attempting to achieve voluntary compliance on the part of casino dealers through the Compliance Reporting Program.

There are two phases to this program:

1) Completing negotiations with dealers at casinos located in the Las Vegas area who have been previously contacted. The proposal made to the dealers contained specific reporting requirements. We expect to resolve the issue with them shortly and initiate examinations for unreported income on nonreporting dealers.

2) Contacting the remaining casinos in the state to bring the dealers into the reporting program. This process is scheduled to begin shortly. Dealers will be required to notify the Service of their intention to enter into reporting progress within the next several months.

Question: The Administration wants payments to independent contractors and payments of interest and dividends made subject to tax withholding to combat the nonreporting or underreporting of these types of income. Yet we annually appropriate millions of dollars for the document matching program under which information reports (Form 1099 series) covering these types of income are matched to individuals' tax returns. Would the tax withholding eliminate the need for the matching program for these types of income?

Answer: This Administration has not advocated withholding on payments to independent contractors and has withdrawn its proposal for limited withholding tax on payments of interest and dividends. The Administration, however, is supportive of the Dole-Grassley Bill provision which would impose withholding on payments subject to information reporting where, after adequate notice, income recipients fail to provide their correct tax identification numbers.

Regardless of the kind of payment involved, if withholding takes place, a matching program is needed to insure that income recipients report all income and do not claim withholding credits to which they are not entitled. Just as the Service now has programs to check on wage recipients, so we would need matching programs for Forms 1099. In brief, withholding is the most efficient way to collect taxes due and to assure voluntary compliance, but it does not eliminate the need for information documents, for the benefit of the taxpayer and for document matching/ verification.

Question: How much nonreporting or underreporting do these types of income now entail?

Answer: For all types of interest and dividends (regardless of information reporting requirements), it is estimated that nonreporting and underreporting account for the omission of about $30.7 billion of income and $6.9 billion of tax (1981 levels).

In the independent contractor area, although we have only limited data, there is an indication that nonreporting and underreporting are significant and that improved payer compliance is a key to a successful matching program.

A study of small and medium corporations, for example, shows that well over half did not file all required information reports for the kind of payments required to be reported on Form 1099 MISC/NEC (rents, royalties, commissions and fees, other fixed and determinable income). For the kind of income paid to independent contractors (i.e., commissions and fees), the missing documents represented 27 percent of the documents required to be filed and 26 percent of the income required to be reported. When we pursued these missing documents to the income recipients, we found that 8.7 percent of taxpayers receiving this type of income failed to file required tax returns and, where a return was filed, income represented by the missing documents had been underreported by 17 percent.

Other studies of other types of income payments have shown that where information returns exist, reporting compliance by income recipients who file tax returns is in the range of 95-98 percent. In contrast, where information reporting does not occur, reporting compliance ranges from 81-91 percent. For these reasons, we are giving special attention to expanded information reporting and to payer compliance programs to insure that all required information returns are issued. Then, voluntary compliance can be expected to close a substantial portion of the tax gap.

Question: How much of this (nonreporting or underreporting) does the document matching program catch?

Answer: The document matching program is, of course, essential to detect those who, accidentally or deliberately, underreport or do not file tax returns. For tax year 1981, assuming resource levels in the FY 1983 budget request, it is estimated that the underreporter program alone will produce $626 million and that the non-filer program will yield $221 million in additional assessments and $122 million in refunds. We estimate that about 68 percent of these amounts stem from nonreporting or underreporting of payments to independent contractors and payments of interest and dividends.

Question: How much would tax withholding prevent?

Answer: The Service does not have estimates of the revenue impact of withholding on payments to independent contractors. Under the Administration's earlier proposal for 5 percent withholding on payments of interest and dividends, it was estimated that by CY 1987 the tax gap attributable to nonreporting or underreporting of interest and dividends subject to the proposal would be $13.9 billion; withholding would reduce this by $3.3 billion.

TAX-EXEMPT ORGANIZATIONS

Question: Recently there has been much discussion of IRS' interpretation of the tax exempt laws relating to private religious schools. This example raises the question of whether the current laws on tax exemption are so broad that IRS must expend considerable resources in interpreting the law. How many staff years does IRS devote to interpreting tax laws regarding exemption?

Answer: The FY 1982 IRS Financial Plan and the FY 1983 proposed Budget each provides 800 staff years for the Exempt Organiations (EO) activity. The 800 staff years includes 474 for EO specialists in field offices to audit exempt organizations and review applications for recognition of applications. The National Office has 150 staff years for the issuance of rulings and to provide technical and operational support of the field offices. The remaining 176 staff years are primarily for administrative and clerical support of the field offices.

Question: What suggestions can you make to clarify the tax exemption laws to reduce your administrative costs?

Answer: IRC section 501(c) is very broad and permits the exemption of a diverse group of organizations. There are currently some 800,000 501(c) organizations listed on the Service's computer file. The law does not require churches and certain church related organizations to apply for recognition by the Service; therefore they are, for the most part, not listed. The very size and diversity of the 501(c) population precludes any suggestion for a sweeping revision without a major study of the social, economic and legal consequences. From time to time, however, specific pieces of legislation are suggested by the Service that would clarify the law and reduce administrative costs. One such suggestion that is the basis for legislation now pending before the Congress involves the related issues of the tax exemption of and deductibility of contributions to amateur athletic organizations. This legislation has been endorsed by the Treasury Department in hearings before the Senate Finance and the House Ways and Means Committees. The Service regularly reviews the exemption provisions with a view toward finding clarifications that would reduce administrative costs. One recent Service suggestion resulted in legislation that streamlined return filing requirements.

Question: The tax exemption provisions of the Code provide for the public access to annual returns and approved applications for exemption filed by exempt organizations with IRS. Much of the information required by law from tax-exempt organizations is to satisfy a perceived public need for information as well as to meet IRS' needs in administering the exemption provisions. However, little is known about the cost/benefit relationships of (1) requiring so much information from all kinds of exempt organizations and (2) processing and storing the information. How frequently do you receive requests from the public for tax exemption returns and applications? Are most of the requests from large organizations such as the Foundation Center as opposed to private individuals?

Answer: For the first quarter of calendar year 1982, we received requests to inspect 3,331 exempt organization returns and applications. The requestors were equally divided between large organizations and private individuals.

Question: Can you measure, or have you measured, the benefits obtained by the general public from their requests for tax-exempt organization returns and applications?

Answer: The Service has not specifically measured the benefits obtained by the general public from disclosure of exempt organization returns and applications. We believe, however, that the public disclosure provisions play a significant part in our compliance program, i.e., they act as a check against the improper use of public funds and other untaxed dollars. At times, we are made aware of situations that warrant examination through newspaper articles based on information obtained from exempt organization returns. The information gathered together with the deterrent effect of requiring public disclosure benefit the general public by ensuring that dollars that would otherwise be taxed are used for the proper purposes under the Internal Revenue Code.

Question: How much of the information currently required to be filed by exempt organizations is needed for purely tax administration purposes?

Answer: All of the information presently required by the Service in connection with an application for recognition of exemption and the filing of the various information returns is needed for tax administration purposes.

The information required in connection with an application for recognition of exemption is information needed for the Service to determine an organization is organized and properly operated in furtherance of exempt purposes as required by the applicable section of the law. This is vital as such information is a matter of public record expressly provided for by section 6104 of the Code.

The information required by the various annual information returns is for the most part information called for by the Code and Regulations. Other items of information are deemed necessary for the Service to properly administer the revenue laws. Without such information the Service would be hindered or precluded from performing the duties and responsibilities placed upon it by Congress. Such returns are also available for public inspection and the information requested thereon is needed by many States that have accepted our Form 990 to satisfy their reporting requirements.

We are constantly reviewing our application forms and returns to verify the information requested is pertinent and necessary and are always seeking changes that could make the application process and return filing requirements less burdensome to taxpayers.

Question: Would the public or IRS be adversely affected if exempt organization filing requirements were limited to exempting any organization with less than $25,000 or revenues or $50,000 of assets from filing a return?

Answer: We do not believe the public or the IRS would be adversely affected by such a change in the filing requirements. We have in the past considered various alternatives for changes in the requirements for the filing of a return. Currently we are planning to raise the receipts level for requiring the filing of a return from the current $10,000 level to $25,000.

Question: In attempting to bring the budget closer to balance, much attention needs to be directed to assuring compliance with all revenue generating tax laws. The Exempt Organizations Division administers one such revenue generating tax law--the Unrelated Business Income Tax. According to GAO, a taxpayer compliance measurement program undertaken in 1975 by IRS showed high exempt organization noncompliance with the Unrelated Business Income Tax. In fact, one estimate held that for every $1 in Unrelated Business Income Tax paid, there was a $4.72 unreported tax liability ($5 million versus $23.6 million). Is IRS still experiencing difficulties in administering the Unrelated Business Income Tax provisions? If so, what can be done to deal with the difficulties?

Answer: Since the Taxpayer Compliance Measurement Program (TCMP), conducted in 1975, indicated a high level of non-compliance, the annual examination of Forms 990-T (Exempt Organizations Business Income Tax Return) was increased from 1,000 to approximately 3,000. A greater percentage of audit coverage is currently provided for Form 990-T than other exempt organization returns. Another TCMP survey is currently being conducted of Forms 990-T to provide updated data as to compliance levels and assist us in planning a future audit strategy in the unrelated business income tax area. When that data is available, we shall be in a better position to analyze problems in this area and recommend solutions.

TAXPAYER ASSISTANCE

Question: During the 1982 filing period, IRS reduced walk-in assistance by discontinuing direct return preparation (126,000 taxpayers were provided such assistance during the 1981 filing period) and reviewing returns prepared by taxpayers (290,000 taxpayers were provided such assistance in 1981). IRS wished to discourage use of walk-in assistance (about $3.25 per person served) and encourage use of telephone assistance (about $1.50 per person served). Initially IRS planned no return preparation assistance during the 1982 filing period but changed its plans shortly before the filing period started. Proposals have been made to discontinue all taxpayer assistance in 1983.

What types of taxpayer assistance will be provided in filing period 1983?

Answer: The Taxpayer Service program in Fiscal Year 1983 will focus on those essential services which for the most part can only be provided by the Internal Revenue Service, such as answering questions pertaining to IRS bills, notices or other correspondence, including refund inquiries, and seeking the current location of individuals whose refunds have been returned undeliverable. Quick question walk-in service will also be directed primarily toward answering account and notice related questions. Group return preparation assistance will be continued, as will direct preparation of returns for handicapped taxpayers or others who demonstrate they are unable to use self-help.

Taxpayer information programs, including the Public Affairs activity will be continued, as will correspondence assistance and all taxpayer education programs except institutes currently conducted for professional tax practitioners. Particular emphasis will be placed on the IRS volunteer tax assistance programs (VITA and Tax Counseling for the Elderly) in FY 1983 in order to provide forms preparation to greater numbers of elderly, low income and other taxpayers with special needs.

Also in FY 1983, IRS will again contract for production of tax information and return assistance shows for telecast by Public Broadcast television stations and promote the use of Forms 1040/1040A films and cassettes by community/library audiences. The Problem Resolution Program will continue in FY 1983 and it is expected to handle approximately 320,000 cases.

We are also planning new initiatives in FY 1983. For example, one concerns the expansion to all IRS district offices and large posts-of-duty of the Tele-Tax information service. This system, which was tested during the recent filing period, provides recorded tax information to taxpayers having touch-tone telephones. The majority (90 percent) of taxpayers surveyed felt the service was of assistance. Another initiative under consideration is an expansion of our group return preparation assistance program, making IRS personnel more accessible during daytime and evening hours to segments of the public not serviced by volunteer groups. We have also established a high level executive task force to seek additional cost effective ways to provide assistance to taxpayers.

In summary, IRS emphasis will be placed on assisting all taxpayers who must rely on IRS for assistance, while increasing reliance on volunteer groups, new technology and more cost-effective methods of providing taxpayer assistance.

Question: What effect will the reduction in taxpayer services have on voluntary compliance?

Answer: We have not conducted a formal analysis of what effect taxpayer assistance has on compliance. Clearly, such an undertaking would be very time consuming and costly. Also we are not sure that current research techniques would provide an answer to this question with any real degree of certainty.

We believe that taxpayers who request IRS assistance want to comply. Consequently, any change in compliance may be more related to the taxpayer's desire to comply or not to comply than to the effects of assistance provided. With the wide range of assistance programs which we will provide in FY 1983, we don't believe the taxpayer's desire or ability to comply will be adversely affected.

Question: If IRS plans to discontinue return preparation assistance but leave walk-in offices open, what types of assistance will the offices provide?

Answer: As indicated in our response to Question #1, we do not plan to discontinue return preparation assistance. The IRS will continue to offer group assistance in completing returns, particularly for the elderly, low income or others with special needs. For handicapped and others who demonstrate an inability to use the self-help method, IRS will directly prepare their returns.

We will also continue to offer a full range of account related assistance, such as answering questions concerning refunds, Service generated notices, bills and other account or administrative matters.

Question: Who uses IRS assistance? What percentage are the poor and the elderly who cannot afford commercial assistance? How many are tax return preparers or others who provide taxpayer assistance for a fee? How many are taxpayers contacting IRS in an attempt to resolve questions or problems other units of IRS have caused?

Answer: Taxpayer Service has historically assisted low income and/or elderly taxpayers. For example, in FY 1981 of all taxpayers assisted by IRS in the preparation of their returns, 91% had adjusted gross income (AGI) of less than $15,000 and 6% were taxpayers 65 and older. In addition 90% of the returns prepared through the volunteer assistance programs were for individuals with AGI of less than $15,000. 24% of the returns prepared through this program were for taxpayers 65 and older and of these 89% had AGI of under $15,000. At this time current data is not available on the make up of the individuals who contact us for telephone assistance, however, GAO is currently completing a review of Taxpayer Service which will provide some data on the clientele, obtained through surveying the users.

The IRS does not capture comprehensive information concerning return preparers who contact Taxpayer Service for walk-in and telephone technical assistance. The only such information relates to telephone bulk forms orders by practitioners and calls on preparer penalties, which together represent less than 1% of our telephone contacts.

We do not have statistics available on questions or problems other IRS units have caused. Generally, Taxpayer Service is perceived by the public as the initial contact point for the Service. Thus, during the normal course of business a multitude of contacts are received concerning other IRS units or questions resulting from Service generated notices.

Question: Has IRS considered charging fees for assistance, including fees for publications it now furnishes free of charge, as an alternative to reducing or eliminating taxpayer assistance?

Answer: Yes, we are considering charging fees for certain publications (Publication 17, Your Federal Income Tax, Publication 334, Small Business Workshops, Publication 225, Farmer's Tax Guide and Publication 595, Tax Guide for Commercial Fishermen).

In addition we have been discussing with American Telephone and Telegraph (AT&T) the feasibility of user funding for our telephone system.

Question: In 1974, IRS offered taxpayers toll-free telephone service nationwide through 135 answering sites. Efficiencies at these sites differed greatly due to equipment capability, staffing, and availability of management information systems. To improve uniformity of service and consistency in the quality of service, IRS began consolidating telephone answering sites. By 1981, IRS had reduced the number of answering sites to 52. A 1977 IRS study projected that additional benefits could be achieved by consolidating operations into 20 answering sites. In fiscal year 1980, IRS also established toll-free telephone lines at two telephone sites (Oakland, California and Jacksonville, Florida) to provide nationwide telephone assistance to Tax Counseling for the Elderly and Volunteer Income Tax Assistance Program participants providing free tax return assistance to selected target groups.

How much has IRS saved form the consolidation of telephone sites?

Answer: The three inter-district consolidations (Atlanta/Columbia/Jackson, Boston/Hartford and Indianapolis/Louisville) which were completed based on the 1977 Site Study and have been in operation at least one year have realized net savings of $461,000. During the first one or two years of operation these sites operated at a loss or with marginal savings when compared to the individual pre-consolidation sites. This is due in part to such factors as the lack of management experience in operating larger sites, the lack of historical data for planning purposes and increased one time operating costs (i.e., training costs for new personnel). All three sites achieved substantial savings in their second or third year of operation as the initial problems were overcome.

A large number of consolidations were intra-district actions for which we have not developed savings estimates. We feel these actions generated substantial savings as they eliminated the smaller, less efficient sites.

Consolidation also results in non cost benefits such as increased uniformity of service and improved managerial effectiveness. As a result the Service has gradually implemented the Study's recommendation and gone from 80 sites in 1976 to our current 52 locations.

Question: Are further telephone site consolidations possible? Why hasn't the recommendation of the 1977 Site Study been fully implemented by reducing the number of sites to 20 if cost savings could be realized?

Answer: Further consolidation of toll-free answering sites is a distinct possibility in ensuing years, particularly in light of the proposed program for FY 1983.

A number of consolidation actions have been completed using the results of the 1977 Site Study as a guide. However, since the completion of that Study a number of factors affecting the cost-benefit of consolidation have changed. For example, the types of available interstate telephone circuitry have changed while costs have increased substantially. Similarly, telephone answering equipment costs have risen.

Based on the impact of these changes on the benefit of consolidations, the Service is formulating an analysis and will update recommendations based on most current information.

Question: Why can't IRS service all taxpayers through two national telephone sites as it does for the volunteers assisting taxpayers in return preparation?

Answer: It would not be cost effective to provide service to the number of taxpayers seeking assistance through two national telephone sites as is done for the volunteers who assist taxpayers. As the distance from an answering site becomes greater the circuitry costs for handling calls increases. As established by the 1977 Site Study and in subsequent follow-up analyses these increases would exceed the expected staff, equipment and space savings resulting from consolidations.

Question: If this is not feasible, why can't the two volunteer telephone sites be consolidated with the other toll-free sites?

Answer: Public Law 95-600, The Revenue Act of 1978, directs the Service to provide preferential access to IRS assistors for TCE volunteers who assist taxpayers. Installing separate numbers at every answering site for the approximately 17,000 TCE/VITA calls we answered during the 1982 Filing Period would be cost prohibitive. The alternative, which is used, is to provide wide area service from two sites which maximizes circuitry utilization while keeping costs at a minimum.

Question: IRS administers several volunteer programs to provide free tax assistance to individuals with special needs, e.g., low income, handicapped, non-English speaking, elderly and others who have difficulty in seeking the assistance of paid preparers or IRS representatives. Under the Volunteer Income Tax Assistance Program, IRS trains volunteers from the local community to aid individuals with special needs in preparing their tax returns. From 1969 to 1980, this volunteer program was also targeted for the elderly. Because of a concern for the special needs of the elderly, the Congress established the Tax Counseling for the Elderly Program in fiscal year 1980 to provide training, technical assistance, and expense reimbursement to volunteers who assist taxpayers over 60 years of age prepare their tax returns. Technical funds were used to set up special toll-free telephone lines to IRS to assist volunteers with tax questions. Expense reimbursement was intended to increase service to the elderly in remote areas or in their homes if they could not come to central sites. The Student Tax Clinic Program was designed to provide independent representation to lower income taxpayers involved in tax examinations or appeals of IRS decisions.

To what extent are the volunteer programs reaching intended target groups? Has the problem of obtaining volunteers for low-income sites, mentioned in April 1980 testimony by GAO before the Subcommittee on Oversight, House Committee on Ways and Means, been corrected?

Answer: The IRS has historically attempted to enlist the support of organizations such as community action agencies, neighborhood centers, and outreach groups which serve low-income, handicapped, non-english speaking and elderly individuals. Statistics indicate that 24% of all returns prepared by Volunteer Income Tax Assistance (VITA) and Tax Counseling for the Elderly (TCE) volunteers in FY 1981 were for taxpayers age 65 and older (VITA, 12%--TCE, 69%). In addition, 90% of the returns prepared by VITA and TCE volunteers had adjusted gross incomes under $15,000 (VITA, 91%--TCE 86%).

We feel that IRS actions have corrected the problem of recruiting volunteers to serve at low-income sites, mentioned in GAO's testimony of April 1980. Internal guidelines specify the target groups to be reached by VITA and TCE volunteers. Field personnel have made efforts to assign coordinators to each volunteer site to ensure that staffing is adequate and that volunteers are available during a site's scheduled hours of operation. Representatives of the Service visit assistance sites to monitor volunteer assistance activities. In FY 1981 visits were made to 35% of all VITA sites and 55% of all TCE sites nationwide. In FY 1982 field personnel were asked to visit all VITA sites at least once during the filing season and 25% of all TCE sites, with emphasis on those sites where non compliance with program guidelines was detected.

Question: If IRS reduces or eliminates taxpayer assistance in the 1983 filing period, will volunteers be able to expand their assistance to serve taxpayers no longer served by IRS?

Answer: Taxpayer assistance to the public will not be eliminated in FY 1983. Toll-free telephone and quick question walk-in service will answer account and notice related questions, and refund inquiries. The Tele-tax information service will be expanded nationwide to answer technical tax questions by recordings. Group return preparation assistance will continue to be available at IRS offices nationwide. Direct preparation of returns will be available for handicapped taxpayers or others who demonstrate they are unable to use self-help. We will also be reaching out into the local communities by having IRS employees offer self-help assistance at community locations to segments of the public not served by the volunteer groups.

In addition, we will continue to expand our volunteer tax assistance efforts. In FY 1983 we plan to initiate the use of "self-help" methods in our volunteer programs. We believe the benefits of this approach will be two-fold. It will serve to educate the public on how to prepare their own tax returns, and at the same time enable volunteers to assist more people.

Increased emphasis and awareness of other outreach programs will be stressed. These programs include:

- tax tapes and films for libraries and organizations, etc. which give step-by-step instructions on preparing returns;
- public television tax shows on how to prepare 1040A and 1040 forms;
- individual income tax workshops;
- series of radio programs which would provide detailed information on various tax topics and be available nationwide.

We feel that by devoting our efforts to the information and education programs and by continuing the expansion of the volunteer programs, the needs of the public can be adequately fulfilled.

Question: Has expense reimbursement under the Tax Counseling for the Elderly program improved outreach as intended? Has expense reimbursement under the Tax Counseling for the Elderly program created problems recruiting volunteers for the Volunteer Income Tax Assistance program under which reimbursement is not authorized?

Answer: To date the Service has found that the use of grant awards to fund public and private non-profit organizations has neither significantly increased the number of tax returns prepared nor increased the number of individuals helped by volunteer tax assistors. While TCE volunteers made special visits to over 8,700 shut-ins in FY 1981, statistics comparing VITA and TCE in FY 1980 and FY 1981 reveal no unusual growth rates in either program. What these statistics do indicate is an apparent shift in the number of volunteer returns prepared. For example, the number of VITA returns prepared decreased from 325,892 in FY 1980 to 293,047 in FY 1981, while the number of TCE returns prepared increased from 30,203 to 78,937.

A few problems were encountered during FY 1980, the first year of TCE operation, as a result of having both reimbursed and nonreimbursed volunteers. Some instances of attempts by TCE sponsors to recruit already established VITA volunteers from outside their organizations into the TCE program were reported and caused local administrative problems. Fewer problems of this nature occurred in FY 1981 and FY 1982. It is our feeling that the existence of the reimbursement provision has caused some confusion on the part of VITA volunteers. The Service does not believe that the reimbursement of expenses under the TCE program is a significant motivational factor when volunteers consider offering volunteer service.

Question: Although IRS' costs for volunteer programs may be low in relation to benefits provided, are other Federal costs involved? To what extent are persons who are paid under other government programs used as volunteers to prepare returns? To what extent are Student Tax Clinics supported by Department of Education funds?

Answer: We have no information regarding other Federal costs of volunteer programs nor of persons paid under other government programs being used as volunteers to prepare returns. We also have no knowledge of any Student Tax Clinic receiving Department of Education funds.

Question: To what extent has IRS been able to improve the accuracy of returns prepared by volunteers which historically have been less accurate than returns prepared by IRS, paid preparers, and taxpayers who prepare their own returns?

Answer: Since 1979 the combined quality of volunteer prepared Forms 1040 and 1040A has been consistently higher than taxpayer prepared returns. The combined quality rate for volunteer prepared forms ranged between 91 and 92 % over this period. Traditionally, IRS prepared/reviewed and third party prepared returns are of higher quality than volunteer prepared returns.

Changes to improve the accuracy of TCE/VITA returns have included the implementation of pass/fail testing to ensure more qualified volunteers, development of the district office quality review program for TCE and VITA returns and the use of job aids such as the Tax Finder and Earned Income Credit Job Aid and Table. Efforts are also made to recruit volunteers from professional and business organizations which have a high degree of tax law expertise. For the past filing season, information available through March 24 shows an accuracy rate of 92% for volunteer prepared returns versus 91% for taxpayers.

EXECUTIVE OFFICE OF THE PRESIDENT

Compensation of the President

STATEMENT OF JOHN F. W. ROGERS, SPECIAL ASSISTANT TO THE PRESIDENT FOR MANAGEMENT, AND DIRECTOR, OFFICE OF ADMINISTRATION

ACCOMPANIED BY:
URSULA H. PEARSON, DIRECTOR, FINANCIAL MANAGEMENT
RONNIE R. RASMUSSEN, BUDGET OFFICER

PREPARED STATEMENT

Senator ABDNOR. We will next hear from the Executive Office of the President.

Our next witness is Mr. John Rogers, Deputy Assistant to the President for Management and Director, Office of Administration.

Mr. Rogers, delighted to have you with us today, and we especially appreciate you accommodating yourself to our accelerated schedule.

The fact that you can testify to all of the budget items, with the exception of OMB, is highly laudatory. So we will just let you introduce the people with you.

Mr. ROGERS. Thank you, Mr. Chairman.

On my right is Ursula Pearson, Director, Financial Management of the Office of Administration, and on my left is Mr. Ron Rasmussen, Budget Officer.

With your permission I would like to read a summary of the consolidated statements that I have for each of the agencies of the EOP.

Senator ABDNOR. You can submit your entire statement for the record.

Mr. ROGERS. Yes; I will submit the entire statement, Mr. Chairman.

[The statement follows:]

STATEMENT OF JOHN F. W. ROGERS

COMPENSATION OF THE PRESIDENT

The fiscal year 1983 budget request for Compensation of the President is $250,000. This includes $200,000 for the direct salary of the President as authorized by 3 U.S.C. 102. In addition, the President receives a $50,000 expense account for official expenses with any unused portions reverting to the Treasury. This expense account is not considered as taxable to the President.

THE WHITE HOUSE OFFICE

I appreciate the opportunity to appear before you today to discuss the fiscal year 1983 budget request of the White House Office. The mission of the White House Office is to insure proper support and assistance to the President and to do so in a highly efficient, cost-effective manner. After careful consideration, the White House Office requests $22,164,000 for FY 1983. This amount will provide for 322 full-time permanent positions, a reduction of 28 persons since last year's request. This staff provides a wide range of support and assistance to the President which are vital in enabling him to carry out his many duties and important responsibilities. Also, we are requesting a 1982 supplemental appropriation of $775,000 to cover the increased cost of the October 1982 general pay raises and the January 1982 lifting of the pay ceiling.

The largest proportions of the White House Office budget are allocated to personnel compensation and benefits, payments to GSA for office space, and to other overhead rents, communications, and utilities. These three categories absorb 90% of the total White House Office budget.

The remaining 10% provides travel funds for the President and his staff, supplies, printing, contractual services, equipment, and other expenses associated with office operations.

The projected cost increases shown for FY 1983 may be summarized in three major areas: personnel, SLUC, and other operating expenses. Of the total increase, approximately one-third represents the annualization of the pay raise supplemental and the annualization of hiring lapses from 1982. These lapses are the interim vacancies in our staff which we are deliberately extending for short periods of time instead of immediately refilling the position, so as to generate savings of salary costs to meet the budget reductions in FY 1982. In 1983, however, we are projecting a constant, full staffing level throughout the year.

The estimate for office space rental (SLUC) provided to the White House by GSA accounts for another one-third of the total increase, and is a figure over which we have no control. Thus, two-thirds of the increase shown in the budget is beyond our control, and is not a result of any expansion of the White House Office. Finally, the remaining one-third of the total increase is for inflation on our other operating expenses, such as supplies, printing, rentals and communications, and other contractual services. Our discretionary accounts such as travel and equipment have not been increased at all for FY 1983.

The FY 1983 budget request presented here is actually a decrease from the original request for FY 1982 from a year ago. As you know, the White House, along with many other areas of the Federal Government, has been operating at a reduced spending level during the current fiscal year. The FY 1983 request would allow operations to continue at this reduced level, with prudent and reasonable increases included where necessary to maintain a high standard of support to the President. I would be pleased to provide answers to any questions you may have.

OFFICE OF ADMINISTRATION

Mr. Chairman, I am pleased to appear before you and other Members of this Committee to discuss the annual Appropriation Request of the Office of Administration.

The pending 1983 Appropriation Request for the Office of Administration is $13,640,000 or an increase of $1,918,000 over the current authorized level of $11,722,000. In addition, we are projecting estimated reimbursements from the various users within the Executive Office of the President (EOP) for ADP, Systems Development in the amount of $2,450,000, which is an increase of $220,000 over the revised estimate for such reimbursements in FY'82. In part, these combined funds will provide for 147 permanent positions, of which 16 are reimbursable, or a reduction of 5 positions below the current year. The Office of Administration was created to provide common, centralized administrative support and services to all the organizations of the

EOP, of which there are currently 10. Additionally, the Office of Administration currently has a pay supplemental for FY 1982 pending with Congress in the amount of $221,000.

During this past year we undertook a number of intensive reviews of existing policy and practices with an aim toward identifying areas in which increased productivity and efficiency could be realized. As a result of these reviews, we have taken steps to strengthen the managerial control of our operations and have placed a greater emphasis on the planning for, and increased utilization of ADP support systems toward this end.

It has been through these concerted efforts that we have been able to continue to provide the necessary support to the Agencies of the EOP within our current funding level.

I would like to take this opportunity to point out that as part of our budget, $1.2 million is being requested for the long-range planning and upgrade of our present EOP Computer System. The existing system serves as the cornerstone for the automated data processing needs of the various Agencies of the Executive offices in carrying out their respective programs — of which the major portion is dedicated to the support of the multi-faceted budgetary process.

This planned upgrade is vital to the continuance of the diverse number of ongoing initiatives and is paramount to our pursuit of increased productivity for all the Agencies of the EOP.

In closing, the budget request before you is designed to provide for the continuance of the essential administrative support services to the Executive Office of the President while at the same time reflects our effort in upholding the President's commitment to reduce government expenditures and improve the efficiency and effectiveness of government operations.

Mr. Chairman, this concludes my statement. I will be glad to answer any questions you or other members of the Committee may have.

SPECIAL ASSISTANCE TO THE PRESIDENT

The 1983 budget appropriation request of $1,483,000 is for expenses necessary to enable the Vice President to provide assistance to the President. The assistance takes the form of directed and special Presidentially assigned functions. The Vice President, through Cabinet membership and White House contact is informed on a continuing basis regarding Presidential responsibilities.

Among the Vice President's specifically directed functions are the following:

- Member of the President's Cabinet, acting as chairman when the President is absent;
- Statutory Member of the National Security Council;
- Chairman of the Presidential Task Force on Regulatory Relief;
- Chairman of the Presidential Task Force on South Florida;
- Member of the Board of Regents of the Smithsonian Institutions.
- Chairman of the Special Situation Group; and
- Ex Offico member of all Cabinet Councils.

In addition, he is an advisor to the President on matters of national importance, and he assists in ceremonial functions and in the conduct of international affairs.

To deal effectively with these responsibilities, it is essential that the Vice President be provided with adequate staff and appropriations.

The $1,483,000 request for 1983 is $98,000 (which includes sixty two thousand dollars for the annualization of the October 1981, 4.8% increase and the January 1982 "pay cap lift") greater than the 1982 authority of $1,385,000. The number of personnel requested for 1983 is 23 full-time positions, which is a reduction of 1 from the number authorized for 1982. Additionally, there is currently a pay supplemental for FY 1982 pending with Congress in the amount of $56,000.

COUNCIL OF ECONOMIC ADVISERS

The pending 1983 appropriation request for the Council is $2,115,000, or an increase of $161,000 over the current authorized level of $1,954,000 as provided for in the current continuing resolution (P.L. 97-161). The FY 1981 appropriation was $2,205,000. Funding will provide for 34 permanent positions, or a reduction of one position from the current year and accompanying support and services to the Council.

Included in this request is funding in the amount of $77,000 for the annualization of the 4.8 percent pay increase of October 1981 and the January 1982 "pay cap lift." The remaining $84,000 increase is being requested to partially offset the cost increases in normal operating expenses associated with the Council's mission of acting as economic advisers to the President. The Council also has a pay supplemental currently pending before the Congress in the amount of $37,000.

In closing, the budget request before you is designed to provide for adequate funding to support the Council's statutory responsibilities while at the same time reflects our commitment to perform this mission in the most efficient and cost-effective manner.

Mr. Chairman, I would be pleased to answer any questions you or the members of this Committee may have at this time.

NATIONAL SECURITY COUNCIL

Today you have under review a request for $3,976,000 to cover operating expenses for the National Security Council in fiscal year 1983. This funding, in part, will provide for 60 permanent positions, a reduction of 2 from the current year. Additionally, the Council currently has a civilian pay supplemental for FY 1982 in the amount of $233,000 pending before the Congress.

The membership and responsibilities of the National Security Council have been set by law and are, I believe, well known to this Committee. The National Security Council's staff is the central supporting staff for the National Security Council system. Additionally, funding for the support of the President's Foreign Intelligence Advisory Board and the Intelligence Oversight Board has been included in this request.

Mr. Chairman, the details of the Council's request have been made available to the Congress. I would be pleased to answer questions at this time.

OFFICE OF POLICY DEVELOPMENT

Thank you, Mr. Chairman, for this opportunity to present the Fiscal Year 1983 budget request for the Office of Policy Development in the Executive Office of the President.

The pending request of $2,653,000 is for salaries and expenses necessary to enable the Office of Policy Development to provide assistance to the President.

The role of the Office of Policy Development is to advise and assist the President in the formulation, coordination, and implementation of national domestic policy. This office is also responsible for supporting the President's Economic Policy Advisory Board as directed by Executive Order No. 12296 which establishes the Board composed of members from private life to advise the President on overall domestic and international economic policy. The appropriation for the Office of Policy Development includes funds for the expenses of the Board.

The Fiscal Year 1983 appropriation request of $2,653,000 is an increase of six percent, or $153,000 above the $2,500,000 available in the current continuing resolution for Fiscal Year 1982.

On April 13, 1982, the President submitted a request to the Congress for a supplemental appropriation for Fiscal Year 1982 which includes $121,000 for the Office of Policy Development to provide for the 4.8% pay increase and the change in Executive Level pay rates. This would increase our 1982 budget authority to a total of $2,621,000.

The major difference between the Fiscal Year 1982 estimate and the Fiscal Year 1983 request is the annualized cost of the FY 1982 pay increases. Also, we are requesting authorization for 45 full-time permanent positions, which is a reduction of one full-time permanent position below our current authorization.

The Office of Policy Development has an important role to perform in assisting the President. I believe that this budget request reflects an efficient approach to fulfilling this role.

Again, I appreciate the opportunity to appear before your Committee and will be glad to answer any questions you may have on our budget request.

BIOGRAPHY OF JOHN F. W. ROGERS

Mr. Rogers was raised in Seneca Falls, New York and received his Bachelor of Arts degree in Public Affairs from the George Washington University in 1978. While attending the University, Mr. Rogers worked full-time in the Ford White House as an assistant to the Director of Communications. He worked on the staff of the Senate Republican Policy Committee from January until November 1977 when he left to help launch a new periodical, *Public Opinion*, at the American Enterprise Institute for Public Policy Research (AEI). He worked on the editorial staff of the magazine until he moved into the administrative ranks of the Institute. In September 1979, he was appointed Assistant to the President for Administration and continued in that capacity until he left AEI in November 1980.

During the Presidential transition, Mr. Rogers was Executive Assistant to the Director of the White House transition team. He was responsible for reviewing the administrative operations of the White House.

Mr. Rogers joined the Reagan White House staff on January 20, 1981. The President appointed Mr. Rogers Special Assistant to the President for Administration and Director of the Office of Administration.

On February 1, 1982, the President appointed Mr. Rogers to Deputy Assistant to the President for Management with greater management responsibility within the White House and Executive Office of the President.

BIOGRAPHY OF URSULA H. PEARSON

Ursula H. Pearson is the Director for Financial Management for the Executive Office of the President, Office of Administration. She has served in this position since April 1979. She is responsible for Budget, Accounting, Travel, Payroll and Imprest Fund for the 12 appropriations of the Executive Office of the President.

Mrs. Pearson started her government accounting career in January 1968 with the Department of the Interior, National Park Service. In 1971, she transferred to the Office of Naval Research as an operating accountant. In 1975 she was assigned to the Navy Material Support Activity as a Systems Accountant in charge of financial systems development for major Navy accounting systems.

Mrs. Pearson was born on August 31, 1924 in Breslau, Germany. She received her degree in Languages in 1947 from the University of Berlin with a major in English. From 1948 to 1951 she owned a translating and interpreting office in Berlin. In 1951 she came to the U.S. where she was the proprietor of a restaurant in Long Island, N.Y. She served with the Air Force in a civilian capacity in Wiebaden, Germany from 1960 to 1966. She attended SW State College in Oklahoma and continued her accounting studies at the University of Virginia. She is a member of the Association of Government Accountants and member of the Military Comptrollers Association. Mrs. Pearson and her husband John live in Alexandria Va.

BIOGRAPHY OF RONNIE R. RASMUSSEN

Ronnie R. Rasmussen is the budget officer for the Office of Administration, Executive Office of the President and has served in this capacity since August 1981.

Prior to his appointment to this position Mr. Rasmussen was Deputy Chief of the Financial Management Division with the U.S. Secret Service, an organization in which he has served in varying financial related positions since 1973. Mr. Rasmussen specifically assisted in the automation of their financial accounting system, served as the Staff Assistant to the Assistant Director for Administration and in addition, acted as the Administrative Coordinator for the 1980 Presidential Campaign.

Mr. Rasmussen was born January 19, 1946 and raised in Akron, Ohio. While serving in the U.S. Navy he was assigned to the White House Communications Agency from 1965 to 1969. He then worked for the National Security Council while attending the American University, where he obtained his Bachelor of Science Degree in Accounting in 1973.

Mr. Rasmussen has been a member of the Association of Government Accountants since 1973, and is a recipient of the Presidential Service Badge and Certificate.

COMPENSATION OF THE PRESIDENT

Mr. ROGERS. Let me begin with the compensation of the President. The fiscal year 1983 budget request for compensation of the President is $250,000 of which $200,000 is for direct salary of the President as authorized by 3 United States Code 102. In addition, the President receives a $50,000 expense account for official expenses with any unused portions reverting to the Treasury. This expense account is not considered as taxable to the President.

THE WHITE HOUSE OFFICE

The mission of the White House Office is to insure proper support and assistance to the President and to do so in a highly efficient, cost-effective manner. After careful consideration, the White House Office requests $22,164,000 for fiscal year 1983. This amount will provide for 322 full-time permanent positions, a reduction of 28 persons since last year's request. This staff provides a wide range of support and assistance to the President which are vital in enabling him to carry out his many duties and important responsibilities.

OFFICE OF ADMINISTRATION

The Office of Administration was created to provide common centralized administrative support and services to all the agencies of the Executive Office of the President, of which there are currently 10.

The pending fiscal year 1983 appropriation request for the Office of Administration is $13,640,000, or an increase of $1,918,000 over the current authorized level of $11,722,000. In addition, we are projecting estimated reimbursements from the various users within the Executive Office of the President—EOP—for ADP, systems development in the amount of $2,450,000. In part, these combined funds will provide for 147 permanent positions, of which 16 are reimbursable, or a reduction of 5 positions under the current year.

I would like to point out that as part of this request $1.2 million is being requested for the long-range planning and upgrade of our existing EOP computer system which services the automated processing needs of the various agencies of the EOP in carrying out their respective programs.

SPECIAL ASSISTANCE TO THE PRESIDENT

The fiscal year 1983 budget request of $1,483,000 is for expenses necessary to enable the Vice President to provide assistance to the President. This assistance takes the form of directed and special Presidentially assigned functions. The Vice President, through Cabinet membership and White House contact is informed on a continuing basis regarding Presidential responsibilities.

The $1,483,000 request for fiscal year 1983 represents an increase of $98,000 over the fiscal year 1982 budget authority of $1,385,000. In part, this funding will provide for 23 full-time positions or a reduction of 1 from the number authorized in fiscal year 1982.

COUNCIL OF ECONOMIC ADVISERS

Pursuant to the Employment Act of 1946, the Council has responsibility for analyzing the national economy and its various segments, advising the President on economic developments, recommends policies for economic growth and stability, appraises the economic programs and policies of the Federal Government, and assists in the preparation of the annual economic report of the President to Congress.

The fiscal year 1983 appropriation request for the Council is $2,115,000, or an increase of $161,000 over the authorized level of $1,954,000. This funding will provide for 34 permanent positions, or a reduction of 1 from the current year, and accompanying support and services to the Council.

NATIONAL SECURITY COUNCIL

The statutory function of the Council is to advise the President with respect to the integration of domestic, foreign and military policies relating to national security. Moreover, the Council's membership has also been set forth by law. The National Security Council's staff is the central supporting staff for the National Security Council system.

The pending fiscal year 1983 request is $3,976,000 to cover operating expenses for the National Security Council. This funding, in part, will provide for 60 permanent positions, a reduction of 2 from the current year. Additionally, funds in the amount of $365,000 have been included in this request to support the President's Foreign Intelligence Advisory Board and the Intelligence Oversight Board.

OFFICE OF POLICY DEVELOPMENT

The role of the Office of Policy Development is to advise and assist the President in the formulation, coordination, and implementation of national domestic policy. They are also responsible for supporting the President's Economic Policy Advisory Board as directed by Executive Order No. 12296, which establishes the Board, composed of members from private life to advise the President on overall domestic and international economic policy. The appropriation for the Office of Policy Development includes funds for the expenses of the Board.

The fiscal year 1983 appropriation request of $2,653,000 is an increase of $153,000 above the $2,500,000 currently authorized. This level of funding will provide for 45 permanent positions, or a reduction of 1 under the current level.

REQUEST FOR INCREASES

With the exception of the compensation of the President, all of these accounts have been and are currently operating at a reduced spending level in fiscal year 1982. Correspondingly, the increases in funding can primarily be summarized and attributed to four major categories:

The first is the annualization of the October 1981 pay increase and the January 1982 Executive pay cap lift which are not reflected in the 1982 levels as shown in the formal justification before you. I would like to point out at this time that subsequent to the submission of these budget requests, the President has transmitted a pay supplemental for fiscal year 1982, of which all of the aforementioned agencies are included; second, the impact of the extraordinary rate increase by GSA for office space rental for the White House offices and the occupants of the New Executive Office Building; the third represents a program increase for the long-range planning and upgrade of our current Executive Office of the President's computer system which is administered by the Office of Administration and serves all the agencies of the EOP, including the White House; and finally, funding to partially offset the inflationary cost increases associated with operating expenses which are required for continuance of our diverse and vitally important programs.

In closing, the budget requests before you are designed to provide for the continuance of these agencies' essential operations and support within the EOP and to the President of the United States. At the same time, these requests reflect a unified effort to uphold the President's commitment to reduce Government expenditures and improve the efficiency and effectiveness of Government operations.

Mr. Chairman, this concludes my statement, and I would be glad to answer any questions you or other members of the committee may have.

JUSTIFICATION OF INCREASES

Senator ABDNOR. Mr. Rogers, in some instances, I believe your request is for more than authorized.

Mr. ROGERS. More than currently authorized in fiscal 1982, sir?

Senator ABDNOR. Yes.

Mr. ROGERS. Yes; that is correct for an increase in the appropriation.

Senator ABDNOR. How does that come about?

Mr. ROGERS. Well, as I mentioned in my statement, increases are primarily attributed to four major factors. The annualization of the October 1981, 4.8 percent pay increase, the January 1982 lifting of the Executive pay cap, the dramatic increases in standard level user charges by GSA, and finally, partial funding to offset inflationary costs.

Senator ABDNOR. Well, would that not be subject to a point of order, the authorization and appropriations amounts? The authorization is one thing.

I guess we would have to stay within our limits.

Mr. ROGERS. We have no funding limit in our authorizations.

Senator ABDNOR. You have no limit?

Mr. ROGERS. No; we do not in our authorization. However, Congress sets the limit of the budget authority when it approves our appropriation requests.

Senator ABDNOR. Maybe I am still learning on this job.

Mr. ROGERS. I think you might have been thinking of the Council on Wage and Price Stability, which did have a limit in its authorization.

Senator ABDNOR. Well, did you do the same thing in the House?

Mr. ROGERS. Exactly the same thing.

Senator ABDNOR. Well, we will have some questions later on.

WHITE HOUSE IMPROVEMENT

I see you have got a new canopy over there. I noticed it the other day. How much did something like that cost you?

Mr. ROGERS. Well, the awning that was put up on West Executive Avenue is something that we feel should have been added over 50 years ago by the White House. It was provided by the National Park Service at a cost of under $2,500.

Senator ABDNOR. The Park Service handles them?

Mr. ROGERS. The Park Service handles anything on the outside, within the parameters of the 18 acres, yes, sir.

THE FIRST LADY'S STAFF

Senator ABDNOR. What is the size and the cost of Mrs. Reagan's staff, compared to the size and cost of Mrs. Carter's staff?

Mr. ROGERS. The First Lady's staff has, since my statement last year, not increased at all. We have continued to provide for only 15 full-time staff members, which reflects a reduction from the 38 associated staff members assigned to Mrs. Carter. Our approximate savings are close to $200,000.

Senator ABDNOR. How much?

Mr. ROGERS. Close to $200,000, in terms of annualized salaries and associated benefits.

Senator ABDNOR. It is working out quite satisfactorily, even with less people?

Mr. ROGERS. It certainly is.

CHAUFFEURING OF AIDES

Senator ABDNOR. You are an often quoted individual, Mr. Rogers. The U.S. News and World Report, I am sure you knew that I was going to ask you that today, quoted you as saying, "You felt the aides had more important things to do than wait around for cabs."

How many chauffeured auto servicing staff do you have?

Mr. ROGERS. Well, first, Mr. Chairman, I think you can probably understand that my quote was taken somewhat out of context.

As I pointed out during the interview, one of the departures from the previous administration, was to get away from the pointless and symbolic restrictions that the Carter administration had imposed on its own staff. Those teeny, tiny economies about cars and drivers, we felt was downright inefficient as it made the lives of aides more awkward than they had to be by waiting for cabs.

We currently have 29 sedans that primarily provide shuttle service to Capitol Hill for the senior aides.

Senator ABDNOR. How many?

Mr. ROGERS. Twenty-nine.

Senator ABDNOR. Let me ask you this one.

Do many use them for driving from home to the office?

Mr. ROGERS. That service, portal to portal, is restricted to Mr. Meese, Mr. Baker and Mr. Deaver, and that is it.

BUDGET REQUEST FOR THE NATIONAL SECURITY COUNCIL

Senator ABDNOR. I knew I had something else here. From the National Security Council. They have a request for $3,967,000 for the expenses of the National Security Council staff. This funding, in part, will provide for 60 permanent positions, and a reduction of 2 from the current year.

To figure this out, it is almost $4 million requested for 60 people. The average grade must be GS-18 or above, is that right?

Mr. ROGERS. I can provide the breakdown by grade for the National Security Council. I also think you should note that of that request, $350,000 is for two Boards that the President established: The President's Foreign Intelligence Advisory Board and the Intelligence Oversight Board.

The average salary for members of the Council is $29,935 in fiscal year 1982 and changes to $33,016 in fiscal year 1983 due to the pay increase.

[The information follows:]

NATIONAL SECURITY COUNCIL BREAKDOWN BY GRADE

	1981 actual	1982 estimate	1983 estimate
GS:			
18	6	7	7
17	2	2	2
16	4	3	3
15	5	4	4
14	2	2	2
13	1	1	1
12	3	3	3
11	7	7	7
10	6	6	6
9	17	17	15
8	10	9	9
7	1	1	1
Total permanent positions	64	62	60

BUDGET CUTS

Senator ABDNOR. Where do we get the big discrepancy from?

Mr. ROGERS. Well, I think if you look at the request of $3,976,000, the sum of $2,904,000 is primarily associated with salaries, and the remaining amount of $1,072,000 for other expenses such as rent, communications, travel and so on.

Senator ABDNOR. But the 2.——

Mr. ROGERS. And for the first time we have added this funding for the two Boards.

Senator ABDNOR. That is $350,000. And the $2.9 million is what goes in for the 60 positions?

Mr. ROGERS. The $2.9 million is associated with personnel costs, yes.

Senator ABDNOR. I guess this is all the trouble that we can make for you, Mr. Rogers.

You are doing a fine job, and thank you very much.

Mr. ROGERS. Thank you very much, Mr. Chairman.

SUBCOMMITTEE RECESS

Senator ABDNOR. The subcommittee will stand in recess until 1 p.m., when we will hear from the Secretary of the Treasury, Secretary Regan.

[Whereupon, at 11:32 a.m., the subcommittee was recessed to reconvene at 1 p.m., the same day.]

(AFTERNOON SESSION, 1:10 P.M., MONDAY, MAY 3, 1982)

DEPARTMENT OF THE TREASURY

STATEMENT OF DONALD T. REGAN, SECRETARY OF THE TREASURY

ACCOMPANIED BY:
R. T. McNAMAR, DEPUTY SECRETARY
CORA T. BEEBE, ASSISTANT SECRETARY (ADMINISTRATION)
ARTHUR T. KALLEN, DIRECTOR, OFFICE OF BUDGET AND PROGRAM ANALYSIS

PREPARED STATEMENT

Senator ABDNOR. The subcommittee will come to order.

Mr. Secretary, we are honored to have you with us today. I know you are a very, very busy man, who over the past year has suffered through hundreds of congressional hearings. You have become the successful symbol, not only of the Treasury Department, but of this administration, and I certainly do not want to prolong your visit with us today, or deter you from your pressing duties, but nevertheless, I believe my colleagues on the committee would appreciate an economic overview, if you will.

Secretary REGAN. Thank you, Mr. Chairman.

I am pleased to be here today to discuss the Department of the Treasury's operating budget request for fiscal year 1983.

In the interest of time, and with the indulgence of the subcommittee, I will summarize my statement, and ask that the entire statement be inserted into the record.

Senator ABDNOR. Without objection, so ordered.

[The statement follows:]

STATEMENT OF DONALD T. REGAN

I am pleased to be here today to discuss the Department of the Treasury's operating budget request for fiscal year 1982.

As this subcommittee is well aware, the history of this Department is unique. As the second oldest Department in the Federal Government, Treasury has throughout the last 193 years been responsible for a wide range of important Government functions.

Today is no different. The current missions and activities of the Treasury Department represent what are truly basic functions of our Federal Government. We collect Federal taxes and administer the Nation's tax laws. We manage the fiscal affairs of the Government, including paying its bills and financing the public debt. We manufacture the Nation's currency and help regulate many financial institutions. We process passengers and cargo coming into the country, enforcing import and export laws in over 300 ports of entry. Our law enforcement functions include the protection of the President and Vice President, as well as other dignitaries. And, we are a major policy advisor to the President on monetary, fiscal and economic policy, both domestic and international.

In order to carry out these activities in fiscal year 1983, we are requesting a budget of $4.3 billion and 113,592 average positions. This request represents an increase of

$207 million and 515 average positions above comparable fiscal year 1982 levels, which include pending supplemental requests totaling $365 million.

This overall increase reflects a growing workload, inflated costs, and two major program initiatives—the strengthening of the audit and collection functions of the Internal Revenue Service and the modernizing of key Treasury operations.

First, we propose to strengthen the enforcement capabilities of the Internal Revenue Service. Neither we nor the taxpayer should tolerate a situation where there is over $20 billion in outstanding tax debt owed the Government, and where $95 billion in income taxes goes uncollected each year. Our budget includes $154 million and an additional 5,225 positions to enhance the collection and audit activities of the IRS. This initiative will produce additional net revenues of $1.9 billion in fiscal year 1983 alone, with total additional revenue expected to be approximately $7 billion by fiscal year 1985.

Our second initiative is to improve and to modernize major Treasury systems and equipment. We simply cannot continue to neglect the need to modernize. Modernization within IRS is essential to effective tax administration during the 1980's.

We are also committed to modernization and long-term improvements in the Government's fiscal operations, including improvements in cash management. Here, too, outdated systems and processes impose severe costs. As part of our modernization and cash management program, the budget includes increases of $16.4 million for the Bureau of Government Financial Operations. We propose to convert estimated tax payments to the Federal tax deposit system by requiring individual taxpayers to make their payments to authorized depositories as opposed to the Internal Revenue Service. This change will speed the flow of receipts into the Treasury. We will also work with several other departments to implement other cash management proposals. We expect net savings of over $100 million by fiscal year 1984 in reduced interest costs to the Government from this investment.

As I indicated, to finance these initiatives and to carry out our overall objective of reducing the costs of Government, we will cut back on less essential activities, reduce the size of the Treasury workforce, and make needed economies and efficiencies.

While we have made difficult choices and tradeoffs, we believe that these reductions can be accomplished without sacrificing essential services.

For the U. S. Customs Service, inspection processes need to be more selective and less cumbersome, with a resultant savings in personnel. In the area of IRS taxpayer services, changes in procedures and additional automation will provide essential account assistance after a return is filed, while decreasing assistance in returns preparation.

APPROPRIATIONS LANGUAGE PROPOSALS

Our budget also includes several recommendations concerning appropriations language.

We are also requesting authority to permit up to 5 percent of any appropriation to be transferred to another appropriation, as well as transfer authority between the Customs Service and the Secret Service to permit an orderly transfer of BATF functions. This transfer authority will enable us to respond to changes in workload or other emergencies in an orderly fashion during the year.

Our fiscal year 1983 budget also includes language to enable the social security trust funds to reimburse the Bureau of Government Financial Operations directly for the cost of issuing and processing social security payments. Currently, the social security trust funds reimburse the general fund of the Treasury.

FISCAL YEAR 1982 SUPPLEMENTALS

Our budget also includes requests totaling $365 million in supplemental funding for fiscal year 1982.

For the Bureau of Government Financial Operations, we are requesting supplementals of $81.8 million.

Our budget includes supplemental funding of $23.8 million for the activities and functions of the Bureau of Alcohol, Tobacco and Firearms.

For the U.S. Customs Service we are requesting $6.9 million for its role in the support of the President's South Florida Task Force.

For the Internal Revenue Service, our budget includes a supplemental of $123.5 million.

Finally, for the October 1981 pay increase and the lifting of the pay cap effective last January, our supplemental request includes $129 million. This request, which involves all Treasury organizations, was submitted to the Congress recently.

Mr. Chairman, that, in brief, represents the major proposals of the Treasury Department. I would like to insert for the record the "Summary of the 1983 budget" as well as a table summarizing our request by account. I shall be happy to answer any questions that the subcommittee may have.

DEPARTMENT OF THE TREASURY
1983 President's Budget

Office of the Secretary:

- FY 1983 request of $59.8 million and 1,151 average positions, +$4.0 million and -15 average positions as compared to FY 1982.

- Budget presentation reflects merger of Salaries and Expenses and International Affairs appropriations.

Office of Revenue Sharing:

- FY 1983 request of $6.6 million and 131 average positions, +$.3 million and -12 average positions as compared to FY 1982.

Federal Law Enforcement Training Center:

- FY 1983 request of $12.9 million and 244 average positions, +$.6 million and -4 average positions as compared to FY 1982.

- Provides funding for the majority of basic training requirements. Remaining unfunded basic training and all advanced training requirements will be required to be funded by participating agencies to the extent possible.

Bureau of Government Financial Operations:

- FY 1983 request of $183.3 million and 1,840 average positions, -$48.6 million and -720 average positions as compared to FY 1982.

- BGFO's 1983 request assumes reimbursement for the bureau's Social Security-related activities rather than the use of appropriated funds, as was the case in FY 1982.

- The 1983 request includes $13.1 million for conversion of Estimated Tax Payments to the Federal Tax Deposit system; the resulting net savings are estimated at $44 million in FY 1983 and $89 million in FY 1984.

- Otherwise, the theme of the 1983 budget is modernization -- of cash management practices Government-wide and of the bureau's various operations.

U.S. Customs Service:

- FY 1983 request of $530.5 million and 12,581 average positions, +$3.9 million and -979 average positions as compared to FY 1982.

- Net change of +$3.9 million and -979 average positions reflects the following:
  - Annualization of ATF transfer of $15.3 million and 359 average positions
  - Price increases of $25.5 million
  - Reductions of -$44.7 million and -1,338 average positions.

- President's request reflects functional transfer of alcohol and tobacco functions from the Bureau of Alcohol, Tobacco and Firearms to the U.S. Customs Service, effective April 1, 1982.

- Program reductions will be accomplished through attrition and reductions-in-force.
  - Expect to minimize the impact of staffing reductions through streamlining the inspectional process wherever

possible and through emphasis on improved automated systems.

* Reduction-in-force of approximately 1,500 employees is anticipated.

Bureau of the Mint:

- FY 1983 request of $50.2 million and 1,266 average positions for the Salaries and Expenses appropriation, +$2.4 million and -94 average positions as compared to FY 1982.
- Provides funding for the production of 17.6 billion coins in FY 1983, and through depletion of inventories, the shipment of 18.8 billion coins in FY 1983.
- Funds requested for FY 1983 will allow for plans to close the New York Assay Office Refinery.
- FY 1983 request of $5.2 million for the Expansion and Improvement Appropriation, +$1.2 million as compared to FY 1982. Provides for continuing improvements to existing Mint coining facilities.

Administering the Public Debt:

- FY 1983 request of $210.0 million and 2,460 average positions includes $195.2 million and 2,183 average positions for the Bureau of the Public Debt and $14.8 million and 277 average positions for the U.S. Savings Bonds Division.
- FY 1983 request represents an increase of +$31.8 million and a decrease of -137 average positions. An increase of $33.2 million and -67 average positions are in the Bureau of the Public Debt. An increase of $.2 million and -70 average positions are in the Savings Bonds Division.
- The Bureau of the Public Debt increase includes:
  * +$29.8 million for increased workload volumes in Savings Bonds sales and redemptions, and
  * +$3.4 million for increased workload in the marketable securities area.
  * Personnel reductions in both of the above activities are the result of increasing automation and efficiency. Related dollar savings of -$1.9 million have been included in the above numbers.
- At this time, the Bureau's request assumes no change in the operation of the marketable securities activity.
- The Savings Bonds Division's increase of $.2 million is the result of inflationary cost increases offset by reductions of $1.3 million related to the decrease of 70 average positions.

Internal Revenue Service:

- FY 1983 request is $2.917 billion and 88,673 average positions, $237 million and 3,310 average positions above FY 1982.
- Net change of $237 million above FY 1982 reflects the following:
  * $154 million and 5,225 positions for an initiative to collect delinquent taxes and examine deficient returns.

- Increases for this initiative are for the following programs:

-- Collection of delinquent accounts	3,000 positions
-- Identification of nonfilers	1,000
-- Examination of deficient returns	1,000
-- Appeals	225
Totals	5,225 positions

- $75.3 million and 297 average positions for systems modernizations, primarily in the collection program. The program proposes to modernize the current system for collecting delinquent taxes, freeing up staff years through increased efficiencies and productivity.

- Reduction of $50.4 million and 1,691 average positions in Taxpayer Service.

  - Reduction will be applied to general tax law telephone and walk-in assistance. The program will concentrate on assisting taxpayers with question or problems related to their accounts after the return is filed.

  - This will represent assistance with information that can be provided only by the IRS as opposed to private sector sources of taxpayer assistance.

- $35.2 million and 971 positions for workload related increases.

- $22.9 million for mandatory cost increases in FY 1983. The major components of this increase are:

U.S. Secret Service:

- FY 1983 request of $294.4 million and 5,377 average positions, +$65.5 million and 865 average positions as compared to FY 1982.

- The increased funding requirements are primarily for the following items:

  - $49.5 million to annualize the BATF transfer proposed in FY 1982 (firearms and explosives activities).

  - $11.6 million to fund inflationary cost items (i.e., GSA rental costs, FTS and other communications costs, increased airfare, etc.)

  - $1.0 million to fully fund the October 1981 pay raise.

  - $4.5 million for the Candidate and Nominee program. This includes training and related equipment requirements.

  - $3.8 million to convert approximately one-half of their existing communications equipment to voice privacy.

  - $2.2 million to provide technical support to the Service's investigative and protective functions, including $1.5 million for vehicle replacement schedule.

  - $7.1 million in program reductions. This includes $2.5 million to reimburse state and local governments for their assistance to the Service in protective activities. Other savings will be achieved through reducing permanent changes of station moves, reducing equipment purchases, and restricting overtime.

- President's request reflects a functional transfer of firearms and explosives functions from the Bureau of Alcohol, Tobacco and Firearms to the U.S. Secret Service, effective April 1, 1982.

THE DEPARTMENT OF THE TREASURY
Summary of Budget Estimates for FY 1983
(Dollars in Thousands)

Treasury Subcommittee	FY 1981 Appropriation		FY 1982 Proposed Level		FY 1983 Estimate		Total Changes		Program Changes		Other Changes	
	Ave.Pos.	Amount	Ave.Pos.	Amount	Ave.Pos.	Amount	Ave.Pos.	Amount	Ave.Pos.	Amount	Ave.Pos.	Amount
Office of the Secretary	1,233	58,670	1,166	55,729	1,151	59,752	-15	4,023	---	---	-15	4,023
Fed. Law Enforce. Trng. Center	256	13,648	248	12,268	244	12,913	-4	645	---	---	-4	645
Bureau of Gov't Financial Oper:												
Salaries and Expenses	2,583	199,304	2,560	231,865	1,840	183,267	-720	-48,600	92	16,392	-812	-64,992
Payment of the Guam, V.I. and American Samoa	---	2,173	---	---	---	---	---	---	---	---	---	---
Postal Savings System Liquidation	---	---	---	200	---	---	---	-200	---	---	---	-200
Bureau of Alcohol, Tobacco and Firearms	3,637	149,850	1,711	83,014	---	---	-1,711	-83,014	---	---	-1,711	-82,014
U.S. Customs Service	13,316	498,468	13,560	534,414	12,581	530,524	-979	-3,890	---	---	-979	-3,890
Bureau of the Mint:												
Salaries and Expenses	1,545	61,446	1,360	47,489	1,266	50,165	-94	2,376	---	1,384	-94	992
Expan. & Improve. (Prop. Leg.)	---	---	---	3,969	---	5,200	---	1,231	---	1,231	---	---
Bureau of the Public Debt	2,592	191,939	2,597	178,234	2,460	210,045	-137	31,811	---	20,765	-137	11,046
Internal Revenue Service:												
Salaries and Expenses	4,523	164,485	3,922	164,376	3,918	171,102	-4	6,726	118	8,334	-122	-1,608
Taxpayer Ser. & Ret. Proc.	32,810	837,637	30,824	916,340	29,286	957,679	-1,538	41,339	351	75,300	-1,889	-33,961
Examinations & Appeals	29,300	903,115	29,715	952,222	30,910	1,016,634	1,195	64,412	1,574	45,589	-379	18,323
Investigations & Collection	19,591	574,506	20,902	647,349	24,559	771,744	3,657	124,395	4,450	135,315	-793	10,920
Total, IRS	86,224	2,479,743	85,363	2,680,287	88,673	2,917,159	3,310	236,872	6,493	236,872	-3,183	-27,666
Payment Where Energy Credit Exceeds Liability for Tax	---	900	---	440	---	300	---	-140	---	---	---	-140
U.S. Secret Service	3,558	178,339	4,512	228,988	5,377	294,407	865	65,479	---	10,480	865	54,999
Subtotal, Treasury Subcom.	114,944	3,834,480	113,077	4,056,947	113,592	4,263,732	515	206,785	6,585	314,790	-6,070	-108,005
HUD-Independent Agencies:												
Office of Revenue Sharing	152	6,700	143	6,329	131	6,612	-12	283	---	---	-12	283
NYC Seasonal Loan Guar. Prog.	---	903	---	822	---	310	---	-512	---	---	---	-512
Subtotal, HUD-Indep. Agen.	152	7,603	143	7,151	131	6,922	-12	-229	---	---	-12	-229

Treasury Subcommittee	FY 1981 Appropriation		FY 1982 Proposed Level		FY 1983 Estimate		Total Changes		Program Changes		Other Changes	
	Ave.Pos.	Amount	Ave.Pos.	Amount	Ave.Pos.	Amount	Ave.Pos.	Amount	Ave.Pos.	Amount	Ave.Pos.	Amount
State, Judiciary & Commerce												
Chrysler Corp. Loan Guar. Prog.	10	1,349	14	1,365	13	1,211	-1	-154	---	---	-1	-154
Proposed Legislation Department of Education Accounts Transferred to Treasury*												
Impact Aid	114	639,088	102	441,624	97	287,760	-5	-155,864	—	—	-5	-155,864
Higher Ed. Fac. Loans & Ins.	—	27,656	—	26,850	—	45,143	—	18,293	—	—	—	18,293
Subtotal, Dept. of Ed. Accts.	114	666,744	102	470,474	97	332,903	-5	-137,571	—	—	-5	-137,571
Total, Appro. Operating Acct.	115,220	4,510,176	113,336	4,535,937	113,833	4,604,768	497	68,831	6,585	314,790	-6,098	-245,959
Permanent Authorization, Claims Trust Acct., Gen. Rev. Sharing, & Proposed Leg. (See Attached)	8,789	88,170,647	8,873	105,899,473	9,182	120,351,950	309	14,452,477	—	—	309	14,452,477
GRAND TOTAL, Treasury	124,009	92,680,823	122,209	110,435,410	123,015	124,956,718	806	14,521,308	6,585	314,790	-5,779	14,206,518

* Transferred from Department of Education in FY 1983 under proposed legislation; the FY 1981 and 1982 levels are shown for comparison purposes.

SUMMARY STATEMENT

Secretary REGAN. Thank you.

As this subcommittee is well aware, the history of this Department is unique. As the second oldest Department in the Federal Government, Treasury has throughout the last 193 years been responsible for a wide range of important Government functions.

Today is no different. The current missions and activities of the Treasury Department represent what are truly basic functions of our Federal Government. We collect Federal taxes and administer the Nation's tax laws. We manage the fiscal affairs of the Government, including paying its bills and financing the public debt. We manufacture the Nation's currency and help regulate many financial institutions. We process passengers and cargo coming into the country, enforcing import and export laws in over 300 ports of entry. Our law enforcement functions include the protection of the President and Vice President, as well as other dignitaries. And, we are a major policy advisor to the President on monetary, fiscal and economic policy, both domestic and international.

In order to carry out these activities in fiscal year 1983, we are requesting a budget of $4.3 billion and 113,592 average positions. This request represents an increase of $207 million and 515 average positions above comparable fiscal year 1982 levels, which include pending supplemental requests totaling $365 million. This overall increase reflects a growing workload, inflated costs, and two major program initiatives—the strengthening of the audit and collection functions of the Internal Revenue Service and the modernizing of key Treasury operations.

First, we propose to strengthen the enforcement capabilities of the Internal Revenue Service. Neither we nor the taxpayer should tolerate a situation where there is over $20 billion in outstanding tax debt owed the Government, and where $95 billion in income taxes goes uncollected each year. Our budget includes $154 million and an additional 5,225 positions to enhance the collection and audit activities of the IRS. This initiative will produce additional net revenues of $1.9 billion in fiscal year 1983 alone, with total additional revenue expected to be approximately $7 billion by fiscal year 1985.

Our second initiative is to improve and to modernize major Treasury systems and equipment. We simply cannot continue to neglect the need to modernize. Modernization within IRS is essential to effective tax administration during the 1980's.

We are also committed to modernization and long-term improvements in the Government's fiscal operations, including improvements in cash management. Here, too, outdated systems and processes impose severe costs. As part of our modernization and cash management program, the budget includes increases of $16.4 million for the Bureau of Government Financial Operations. We propose to convert estimated tax payments to the Federal tax deposit system by requiring individual taxpayers to make their payments to authorized depositories as opposed to the Internal Revenue Service. This change will speed the flow of receipts into the Treasury. We will also work with several other departments to implement other cash management proposals. We expect net savings of over $100 million by fiscal year 1984 in reduced interest costs to the Government from this investment.

As I indicated, to finance these initiatives and to carry out our overall objective of reducing the costs of Government, we will cut back on less essential activities, reduce the size of the Treasury workforce, and make needed economies and efficiencies.

While we have made difficult choices and tradeoffs, we believe that these reductions can be accomplished without sacrificing essential services.

For the U.S. Customs Service, inspection processes need to be more selective and less cumbersome, with a resultant savings in personnel. In the area of IRS taxpayer services, changes in procedures and additional automation will provide essential account assistance after a return is filed, while decreasing assistance in returns preparation.

Our budget also includes several recommendations concerning appropriations language.

We are also requesting authority to permit up to 5 percent of any appropriation to be transferred to another appropriation, as well as transfer authority between the Customs Service and the Secret Service to permit an orderly transfer of BATF functions. This transfer authority will enable us to respond to changes in workload or other emergencies in an orderly fashion during the year.

Our fiscal year 1983 budget also includes language to enable the social security trust funds to reimburse the Bureau of Government Financial Operations directly for the cost of issuing and processing social security payments. Currently, the social security trust funds reimburse the general fund of the Treasury.

Our budget also includes requests totaling $365 million in supplemental funding for fiscal year 1982. For the Bureau of Government Financial Operations, we are requesting supplementals of $81.8 million.

Our budget includes supplemental funding of $23.8 million for the activities and functions of the Bureau of Alcohol, Tobacco and Firearms.

For the U.S. Customs Service we are requesting $6.9 million for its role in the support of the President's South Florida Task Force. For the Internal Revenue Service, our budget includes a supplemental of $123.5 million.

Finally, for the October 1981 pay increase and the lifting of the pay cap effective last January, our supplemental request includes $129 million. This request, which involves all Treasury organizations, was submitted to the Congress recently.

Mr. Chairman, that, in brief, represents the major proposals of the Treasury Department. I would like to insert for the record the "Summary of the 1983 budget" as well as a table summarizing our request by account. I shall be happy to answer any questions that the subcommittee may have.

FUNDS FOR LAW ENFORCEMENT

Senator ABDNOR. Well, thank you, Mr. Secretary, for the view of your budget.

One thing, you do have considerable law enforcement in the Treasury Department. While I do not think this committee is exactly known as the last of the big spenders, that is one area that we have always felt that deep cuts are something that we have not particularly recommended. We know that you are doing a fine job with the agencies that you have under you in that area.

Do you think the budget reflects, for all the agencies that you have in law enforcement, sufficient funds to do the job that you want to do?

Secretary REGAN. Yes, I do, Mr. Chairman. Admittedly, they are tight, they are lean, but I think that with the—with increased efficiencies, and the wise expenditures of those funds, they will be sufficient.

Senator ABDNOR. I say that to some of the very things we are talking about, uncollected taxes, taxes that are never reported, and the Secret Service, it is their grave responsibility, and I guess I admire, to some degree, when I swing around the country, the Customs, see the job they are doing with the limited resources that they have. I just do not think that would be a place to shortchange those operations, because probably in the long run what they are doing, particularly in the drug field, is costing the Government more money than if we would be able to prevent some of that.

You have had definite, positive results from south Florida, have you not, with the concentrated efforts that I guess that Vice President Bush's task force——

Secretary REGAN. Yes, Mr. Chairman, we are. We are having good success down there. An awful lot of resources have been thrown into the fight against that drug traffic down there. From Treasury alone, we have sent in extra agents from the IRS, as well as, of course, beefing up Customs.

In addition, the Comptroller of the Currency, making audits down there, special audits, and the like, so we are playing a major role in trying to apprehend those responsible for a lot of this drug traffic, and then once, or indeed, they have slipped through in past years, or months, to try to get them in a different fashion, either through IRS or through the laundering of moneys, and the like.

I might tell the chairman of an incident that happened about a month ago. It did not receive much publicity in the Washington area, or the east coast press, but did receive some good press down in Miami. We had one recovery down there of a seizure of cocaine coming in from South America that had a value to the wholesaler of $150 million, which theoretically would mean a street value, if you double that, to—for the first sale, and then cut it about 10 to 1 for street sale, would mean literally billions of dollars of drugs that would have been sold on the street, that was intercepted by customs, and seized in the Miami International Airport.

Senator ABDNOR. I certainly commend you and your Agency for that.

You know, the ranking minority member is so quiet, I did not even know he was with us.

Senator DeConcini, do you have something that you want to ask?

TRANSFER OF ATF AGENTS TO SECRET SERVICE

Senator DECONCINI. Mr. Chairman, Mr. Secretary, thank you for the time here today.

In reviewing your statement here, a couple of things trouble me, Mr. Secretary. Maybe you can clarify them.

One conflict that I see between the administration's public stance on law enforcement and the fiscal 1983 Treasury law enforcement budget is the Secret Service budget. Although you are calling for an increase over 1982, I am informed that the Office of Management and Budget denied a Treasury request for approximately 300 new Secret Service positions in fiscal 1983.

It just so happens that your Department resisted vigorously the so-called DeConcini-Abdnor-BATF reorganization plan that would have bolstered our Secret Service workforce by this amount or more, actually 719.

Yet, on the other hand, I hear strong signals from the administration that terrorist threats, counterfeiting and threats to protectees, including the President, are on the rise, and must be addressed immediately.

How do you reconcile this problem, and what are we going to do to help the Secret Service fill this need for more agents, if not through reorganization, then through some other means?

Secretary REGAN. Well, matter of fact, Senator, what we were trying to do is reassign the firearms, explosive, and arson functions from BATF to Secret Service. Also we would have transferred about 1,200 agents to Secret Service. Obviously along with these agents would have come a workload, but nevertheless, by interchanging, and intertraining the agents, we felt that we would have additional resources to apply to the Secret Service protective functions.

We were holding out for everything, but you were willing to give part. I certainly hope over the next several weeks now that we will be able to revisit that, to see if we could not work out some suitable method, because I agree with you, there is a need for additional Secret Service agents, not only in the field of counterfeiting, but as we look ahead to 1984, we have to have these, if we are going to get new agents, have them trained. There will be many candidates for the Presidency in that year, at least according to the popular press as of now.

In that case, along with the Olympic games of that year, we find—we anticipate the Secret Service will have an additional burden placed on them, and we would like to have those other agents in place by that time.

Senator DECONCINI. Well, Mr. Secretary, would you care to comment. Whether you would be supportive, or resistant, if the committee boosted the Secret Service by, say, 300 positions in fiscal year 1983, regardless of any reorganization, and let that fall where it may? There are some negotiations going on. Maybe somebody will resolve the BATF issue, but setting that aside, would you support or oppose us if we added those positions?

Secretary REGAN. I would rather go the other way, Senator, and not go for the 300 additional positions at this time, to see if we could fill them from the others first. I think if we could do that we could save the taxpayers some money, and at the same time enable the Service to carry out its mission.

Senator DECONCINI. If we cannot resolve the reorganization, and if it just stands like it is, would you be supportive of additional Secret Service agents, if the need is still there?

Secretary REGAN. If we cannot work out a compromise, I think that is something that we will have to revisit with you. Maybe it is just that I am perennially optimistic, but I do think that among us we could work out a solution to that problem.

Senator DECONCINI. Well, I am optimistic, too, Mr. Secretary. I think the White House has tried very hard, and I know the chairman here and myself and others have, too. We are optimistic also.

What I am trying to get to is if things do not turn out as predicted, or as optimisticly as we might hope, I would like to see a Secret Service buildup. I just wanted to get on record how important this is to Treasury. I interpret that it is very important.

Secretary REGAN. And I am willing to state that for the record, that having additional Secret Service agents is important to Treasury.

Senator DECONCINI. Now, Mr. Secretary, I am a little disturbed by what I see as more mixed signals coming out of the Treasury 1983 law enforcement budget.

On the one hand you are asking for a $451 million increase in the IRS enforcement budget, while at the same time calling for $34 million cutback in the taxpayer service budget—a major program for helping taxpayers comply with the tax laws.

Furthermore, I understand that little, if anything, has been done by Treasury to study the potential impacts on compliance, if the taxpayer service program is sharply reduced as planned.

How do you reconcile beefing up your audit investigation team on the one hand, to go after tax backlogs, and tax dodgers, while cutting back on the very program that helps taxpayers comply?

Secretary REGAN. Well, there are several answers to that, Senator.

First of all, we know that there is, to coin an old phrase, revisit an old phrase, "there is gold in them there hills." We know that there is gold somewhere in these moneys that are due to us. And the Senator knows better than I, the difficulties that we will have trying to get cuts in budgets for 1983, or to raise additional revenues in 1983, and yet these sums are out there, if we can just go and get them.

I think—not only I, but previous Secretaries of the Treasury, and previous Commissioners of Internal Revenue have been able to demonstrate that with these added agents you can pick up these moneys that are owed to the U.S. Government.

So, on the one hand, we want to do that. Now, on the other hand, we do have to be mindful of the fact that budgets are not limitless, and that we do have to have the economies.

So our question is, is there some way that we can get across to the taxpayers' help, but not the type of help that everybody might want, some place in between, nothing and doing a lot.

Well, what we are trying to do is to experiment with tele-tax system and with other types of taxpayers' services. We had an experiment going on down at Atlanta, to see what could be done with simplifying form 1040A to give the taxpayer some relief.

We actually figure that from our point of view, that if we can simplify systems, if we can keep our booklets in understandable English, if we can answer spot questions on the tele-tax system, things of that nature, we will be able to provide the average taxpayer with enough information so that he or she can fill out the forms without necessary help.

Now, anyone who has a complicated tax return, I think that it is up to that taxpayer who is trying to take certain tax deductions, and needs expert tax help, to get help in the private sector, rather than come to the Government to see whether or not his tax deduction is going to hold up enough.

Senator DECONCINI. Well, I somewhat agree with you, Mr. Secretary, but your response is hardly representative of myself.

I wonder if the taxpayer service program is really for the sophisticated taxpayer who I think might be more able to afford a tax attorney, as you may, and I may, or for some people who have investments of some complication. But is it not true that this is more taxpayer service for the elderly, and the middle American taxpayer that do not have complicated tax returns, but nevertheless they have one or two things that need some assistance?

I do not challenge you on your wanting to experiment. It might be wise to try it. I just want to be sure that we are not telling the elderly, for instance, who may have a few small dividends or pension insurance plan, that they will no longer have available to them proper advice and consultation from the IRS.

Senator ABDNOR. Would the Senator yield one second?

Senator DECONCINI. I yield.

Senator ABDNOR. I think you would be interested in a transcript that we had of the hearing this morning, with Commissioner Egger, because he went into quite a bit of detail on this.

Senator DECONCINI. I will take a look at it, Mr. Chairman.

Secretary REGAN. I am informed, Mr. Chairman, that the program for the elderly will continue, and that this is not an attempt to cut back for the elderly. This is an attempt to cut back on people trying to ask more complicated questions of tax assistors and, taking up an hour, of the assistor's time, to go over a particular return.

Senator DECONCINI. Is that the experience that you have had, Mr. Secretary?

Secretary REGAN. That seems to be the general—now, people who have a particular question, of whether they put such and such an income on line 26, or 27, whatever that happens to be, that type of thing can be answered on the tele-tax with just a fast answer.

CUSTOMS SUPPLEMENTAL REQUEST

Senator DECONCINI. Mr. Secretary, thank you.

Let me ask another question here.

There seems to be other contradictions in the 1983 Treasury budget. You are calling for a $38,277,000 cutback in U.S. Customs Service budget, while on the other hand asking for a $6.8 million supplemental for Customs, for their part in the war on crime in south Florida that the chairman made reference to.

Again, your one-shot supplemental to enhance Customs, as the President has indicated, in the toughest area on the east coast, will be more than offset by a sharp program cutback in Customs' basic law enforcement program in 1983.

Furthermore, I understand that there are no plans for 1983 funding of "Operation Florida" in the Customs' budget next year.

Can you explain what appears to me at least to be a contradiction, at a time when the administration has certainly set out on a pattern of getting tough on crime, and doing something about the narcotics problem? How do we reconcile that?

Secretary REGAN. Let me try to do that rather quickly for you, Senator.

What the south Florida group is called, correctly, is strike force, and the idea behind the strike force is that it is not a permanent force. It goes in and cleans up the mess, and leaves behind sufficient force to take care of a normal situation.

In other words, to try to deliver a knock out blow to the big ones who are bringing in all of these drugs. The chances are that this will drive them elsewhere, and we will have to see where else they will go. But we anticipate that within a short space of time, the actual enforcement part of it will be knocked out, and more left to the attorneys to prosecute these cases, and to see them through to that end, which means that we can pull a lot of these Customs agents that have been devoted to that particular strike force and put them elsewhere, back where they probably should be, at this particular moment.

Now, as far as cutting back on the agents themselves, what we are attempting to do there is to see if there are not more efficient ways to process people and to process cargoes as they come into the United States in these various ports of entry.

We know from past history, we know from computer runs and the like, where the likelihood of crime will be. We intended to devote most of our resources to where the likelihood of where the crime will be, rather than try to disperse it widely. The same thing goes for individuals coming into the country, we will try to follow the pattern of letting most people coming into the country to try to go only after the types that might be the ones that would be carrying something of an illicit nature or undeclared merchandise.

Senator DECONCINI. Do you think, Mr. Secretary, that this knock out blow is going to happen, and you are going to be able to pull these people out, that this problem is going to be substantialy shifted or reduced?

Secretary REGAN. Well, from our initial successes, I am very hopeful that within a period of 6 to 9 months or so that we will see the strike part of it over, and the prosecution phase ended.

Senator DECONCINI. Let me pose a hypothetical. Let us assume that that does not occur, that the flow of drugs is still on the increase. Would you then reconsider keeping that strike force there, and if the answer to that is affirmative, would you then need additional funds to keep it there, or can you use funds from other enforcement areas in Treasury to maintain the strike force in Florida?

Secretary REGAN. Well, this is purely hypothetical now. It would be very difficult, but what we would try to do is use whatever resources we had, but if we had to keep them on there, in large numbers, or indeed had to add to their numbers for any particular reason, I suspect that we would have to come back here for supplemental in order to accomplish that.

Senator DECONCINI. Mr. Chairman, I want to compliment Secretary Regan for exerting a targeted approach toward this particular part of the east coast, and I only urge you to not give up halfway through. I urge you to assess it yourself, because having been involved in prosecution of drug cases, sometimes they are pretty smart hombres and they may cool things down for a while. What concerns me, is that the knock out blow may just be a slight touch to the head.

But I am very pleased that the administration and the Treasury has really diverted a strike force and an effort toward the Florida coast, because you know better than I do, that this area of the country is inundated with contraband, and mostly drugs.

I thank the Treasury Secretary for his testimony, Mr. Chairman.

Thank you.

Senator ABDNOR. Well, thank you, Senator.

I know the Secretary has an extremely important meeting scheduled.

With that, unless you have anything additional, Senator Deconcini?

FLAT TAX

Senator DECONCINI. Let me ask one final question.

This is on a different subject completely than your budget here.

Has your Department given any study, or at all reviewed any dramatic wholesale change of our Internal Revenue System, and I am referring specifically to a new tax system of an across-the-board approach, or substantial reductions in the deductions that are now provided in the law?

I am just interested in information on this subject matter.

Secretary REGAN. Well, just for your information, Senator, a former Secretary of the Treasury predicted to me, shortly after I assumed this office, I do not know whether you know this or not, but former Secretaries of the Treasury have sort of a club, and they hold a dinner to welcome the new member, whenever he or she takes over. And when I took over, this one particular one said to me, the longer you are in office, the more you will come around to my point of view that the best type of taxes are flat. No deductions type of tax. Straight across the board. He said it is eminently fair, and it will undoubtedly be the only way that we could get ourselves out of the mess that we are in.

I have been in office now for about 15 months, and I have been coming around more and more to his point of view. The more we try, the deeper we seem to get ourselves into a more complicated tax structure, and I think that a flat tax has an awful lot going for it. It is one of the things that I am currently mulling about.

I do not promise anything quick on this, but I do think it is something that deserves study.

Senator DECONCINI. Are you familiar with the Hoover Institute study on that subject matter recently reported out?

Secretary REGAN. No, I am not.

Senator DECONCINI. Would you be so kind as to respond to legislation that I have introduced along that line, just to get some ideas, and I wonder if your office, through research or otherwise, have done anything in the area of studying flat tax rates—either while you have been Secretary, or before?

Secretary REGAN. I will be very happy to do that for the Senator, and also for my own edification.

NEW WORLD BANK EXECUTIVE DIRECTOR

Senator DECONCINI. I thank you, Mr. Secretary.

I thank you, Mr. Chairman.

Senator ABDNOR. Thank you, Mr. Secretary.

I might just ask you, when do you plan that we are going to get a new U.S. Executive Director to the World Bank?

Secretary REGAN. We have our candidate in mind. He is going through FBI clearance. This process is taking longer than I want, although I suspect, in view of headlines, that perhaps it is wisest to let the thing take its course and not try to speed it up.

But, nonetheless, as quickly as he could get his clearance, his name will be up, and we hope to get Senate confirmation.

Senator ABDNOR. I think that would be much——

Secretary REGAN. I agree, it was unfortunate that Will Schmidt passed away, and that we had to go through another search process, but we have located our target, as it were, and he is a person that I have great faith in.

Senator DECONCINI. When the chairman is through I have one other question.

Senator ABDNOR. Go right ahead.

RECESSION

Senator DECONCINI. Mr. Secretary, I am sorry to hold you up, but I do not see you too often.

I cannot help but ask this question that is on my mind, and many of my constituents.

You have indicated in the past that our economic recession is a little bit more than what any of us had foreseen, and indeed the economy, according to your latest quote is, "dead in the water" and we are still on the down slope of the recession.

Do you have any revised estimates, in 25 words, or 25 seconds, or a minute or less, that you could tell us what you project today, at least, as to when you see some upturn in this recession?

Secretary REGAN. I will stick to what I said last week. I will not change it for this week, that the economy is flat, to use whatever analogy you wish to use.

I think the leading indicators that came up last week, indicate that we are still in this flat period. I do think the recovery will still come in the second half of this year, and that you should see some signs of that before the coming of summer.

In view of what has happened to the so-called budget compromise, and the efforts that a lot of us are putting into that, the gang of 17, as they are entitled by the President, over the past 5 weeks, I think the recovery might be a little delay in the interest rates coming down as fast as we had hoped they would be as a result of this, because of the uncertainty that this has left us until such time as the Congress can now act in some other fashion on the budget.

But nonetheless, I will stick with my prediction that the recovery will come in the second half of this year.

Senator DECONCINI. The second half of fiscal 1982 year, or of the calendar year 1982?

Secretary REGAN. Of calendar year 1982.

Senator DECONCINI. Thank you.

Senator ABDNOR. Mr. Secretary, we thank you for being with us, and I just once again want to tell you that this committee wants you to have all the tools you need to continue the superb job that you have been doing.

So if there is anything that you need from this committee, let us know. We do not tell that to everybody.

Thank you, Mr. Secretary.

IRS CONCERNS

Thank you, Mr. Chairman, for the opportunity to identify some specific ways by which your committee can help the Treasury Department carry out its major missions. I appreciate the cooperation and assistance that you have provided throughout the past year, and we look forward to working with the committee in the future. There are four areas where I feel your committee could be helpful.

First, we have asked as part of our appropriations language for the Internal Revenue Service to be given multiyear authority for major computer and systems modernization projects. Quite frankly, a year is simply insufficient time to carry out a major computer acquisition project, given the time required by Government agencies to develop the specifications, the time required by vendors to develop bids, and the time required for all the stages in the procurement process. The private sector budgets for such improvement on a multiyear basis, and Treasury should, in my judgment, have the flexibility to do the same. The committee's oversight responsibilities would be unchanged, that is, your committee would determine the amount of time to spend the funds in order to implement these improvements. The only difference is that Treasury will have a reasonable amount of time to spend funds in order to implement these improvements. This change would, of course, affect only a small portion of our entire appropraition. If you concur, the committee can adopt this proposal by accepting the appropriation language that we have proposed for the Internal Revenue Service in fiscal year 1983. In subsequent years, other appropriations may be involved.

A second area where the committee could be helpful is with respect to the transfer authority that we are seeking in the budget. This authority would give us the opportunity, with committee approval, to transfer up to 5 percent between appropriations. I greatly appreciate your efforts to secure the 2 percent transfer authority as part of the continuing resolution for fiscal year 1982, Mr. Chairman. This authority is valuable in that it will allow us to meet unexpected changes in workload and other emergencies. We would like your continued support in this area.

A third proposal where this committee could be helpful is to eliminate the restriction that prevents the Bureau of Engraving and Printing from using time clocks. Here, an 1899 statute prevents Treasury from making rudimentary adjustments to operations in order to reflect practices in the manufacturing industry. We have language in the general provisions of our bill that would eliminate the restrictions, enabling us to save $1 million in fiscal year 1983.

Fourth, and finally, Mr. Chairman, I feel strongly about the two major initiatives included in our fiscal year 1983 budget—the strengthening of the enforcement capabilities of the Internal Revenue Service and the modernization of key Treasury operations. I have highlighted the funding requirements for these initiatives in my statement, and your assistance in approving the increases in the budgets for the Internal Revenue Service and the Bureau of Government Financial Operations would be greatly appreciated.

SUBCOMMITTEE RECESS

The subcommittee will stand in recess subject to the call of the Chair.

[Whereupon, at 1:40 p.m., Monday, May 3, the subcommittee was recessed, subject to the call of the Chair.]

TREASURY, POSTAL SERVICE, AND GENERAL GOVERNMENT APPROPRIATIONS FOR FISCAL YEAR 1983

TUESDAY, MAY 4, 1982

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, D.C.

The subcommittee met at 10:12 a.m., in room 1224, Everett McKinley Dirksen Senate Office Building, Hon. James Abdnor (chairman) presiding.

Present: Senator Abdnor.

GENERAL SERVICES ADMINISTRATION

STATEMENT OF GERALD P. CARMEN, ADMINISTRATOR

ACCOMPANIED BY:

- RAY KLINE, DEPUTY ADMINISTRATOR
- DR. ROBERT M. WARNER, ARCHIVIST OF THE UNITED STATES
- RAY FONTAINE, ASSISTANT ADMINISTRATOR FOR PLANS, PROGRAMS, AND FINANCIAL MANAGEMENT
- WILLIAM B. EARLY, JR., DIRECTOR OF THE BUDGET
- ALLIE B. LATIMER, GENERAL COUNSEL
- PATRICIA Q. SCHOENI, DIRECTOR, CONGRESSIONAL AFFAIRS
- ALAN BERES, COMMISSIONER, TRANSPORTATION AND PUBLIC UTILITIES SERVICE
- ROY MARKON, COMMISSIONER, FEDERAL PROPERTY RESOURCES SERVICE

PREPARED STATEMENT

Senator ABDNOR. The subcommittee will come to order.

Today we begin the third day of hearings on fiscal year 1983 budget request for the Department of the Treasury, Postal Service, and General Government.

At this time, of course, we are very honored to have before us the very Hon. Gerald Carmen, the Administrator of the General Services Administration.

Over the past year Mr. Carmen has turned in a splendid job as manager of one of the most difficult and complex agencies of the Government.

Mr. Carmen, once again we welcome you to this committee, and you may introduce your associates, and proceed as you so desire.

I can assure you, Mr. Carmen, your entire statement will be made a part of the record.

Mr. CARMEN. Thank you.

I have with me my Deputy, Ray Kline; Ray Fontaine, the Assistant Administrator, and Mr. Early, the Director of Budget.

Mr. Chairman, members of the subcommittee, I appreciate the opportunity to appear before you today to discuss the fiscal year 1983 program and resource requirements of the General Services Administration. I hope that such a discussion will be of assistance as you address each of our major programs in greater detail.

I would like to submit my full statement for the record and make a few brief remarks.

[The statement follows:]

STATEMENT OF GERALD P. CARMEN

I APPRECIATE THE OPPORTUNITY TO APPEAR BEFORE YOU TODAY TO SUMMARIZE AND HIGHLIGHT THE FISCAL YEAR 1983 PROGRAM AND RESOURCE REQUIREMENTS OF THE GENERAL SERVICES ADMINISTRATION. I HOPE THAT SUCH AN OVERVIEW WILL BE OF ASSISTANCE AS YOU ADDRESS EACH OF OUR MAJOR PROGRAMS IN GREATER DETAIL.

I BELIEVE THE FEDERAL GOVERNMENT, IN KEEPING WITH PRESIDENT REAGAN'S OBJECTIVES, CAN CARRY OUT ITS ESSENTIAL FUNCTIONS WITH FEWER PEOPLE AND AT A LOWER COST; GSA IS NO EXCEPTION TO THAT RULE. IN ORDER FOR GSA TO BECOME A LEANER, MORE EFFICIENT AND MORE COST-EFFECTIVE OPERATION, WE MUST LOOK AT THE ROLE OF THE AGENCY. ITS ROLE, AS ORIGINALLY OUTLINED IN THE HOOVER COMMISSION REPORT AND DEVELOPED BY SUBSEQUENT STUDIES, IS TO PROVIDE BROAD POLICY GUIDANCE IN PARTNERSHIP WITH THE OFFICE OF MANAGEMENT AND BUDGET AND THE OFFICE OF PERSONNEL MANAGEMENT, FOR THE EXECUTIVE BRANCH OF GOVERNMENT. IF WE ARE TO OPERATE AS ENVISIONED BY THESE STUDIES, CERTAIN CHANGES WOULD HAVE TO BE MADE IN OUR ROLE. IF WE ARE, IN FACT, THE GOVERNMENT'S LANDLORD, IF WE DO PLAN, CONTROL, AND REGULATE THE USE OF THE REAL AND PERSONAL PROPERTY OF THE GOVERNMENT, THEN WE MUST REALIZE, AT THE BEGINNING, HOW LARGE THAT UNIVERSE IS AND WHAT PORTION OF IT IS UNDER GSA'S CONTROL.

WHILE CONSIDERABLE ATTENTION IS GIVEN TO DEFENSE AND DOMESTIC PROGRAMS, LITTLE NOTICE IS GIVEN TO HOW THE GOVERNMENT IS MANAGING ITS ASSETS. IN AN $800 BILLION DOLLAR FEDERAL BUDGET, CONSIDERABLE SAVINGS CAN BE EFFECTED BY GOOD MANAGEMENT, AND THESE FUNDS COULD GO A LONG WAY TOWARD BALANCING OUR BUDGET. I BELIEVE THAT GSA CAN MAKE A CONSIDERABLE CONTRIBUTION TOWARD SUCH A SAVINGS. THE RESULT ALSO WOULD BE A FEDERAL GOVERNMENT IN WHICH THE AMERICAN TAXPAYERS COULD HAVE CONFIDENCE.

I AM PARTICULARLY PROUD OF GSA'S PERFORMANCE IN THE PAST SIX MONTHS. WE INTRODUCED A NUMBER OF WIDE-RANGING INITIATIVES WHICH HAVE SIGNIFICANTLY REDUCED OPERATING EXPENDITURES; AS PART OF THIS EFFORT WE REDUCED TURN-ABOUT TIME FOR DELIVERY OF SUPPLIES TO CUSTOMERS, ENHANCED RESPONSIVENESS TO CLIENTS, APPLIED SOUND BUSINESS PRINCIPLES TO IMPROVE OPERATIONS, AGGRESSIVELY SOUGHT TO ELIMINATE WASTE, FRAUD AND ABUSE WITHIN THE AGENCY, AND INSTITUTED A NUMBER OF INITIATIVES THAT HAVE IMPROVED OPERATIONS AND

RESULTED IN SIGNIFICANT COST SAVINGS. DURING THIS SAME PERIOD, GSA'S TOTAL EMPLOYMENT DECLINED BY ABOUT 2,700. THESE ACTIONS AND THEIR EFFECTS HAVE NOT BEEN EASY, BUT THE RESULTS SPEAK FOR THEMSELVES.

THE ACTIONS HAVE ENABLED US TO MEET THE CONGRESSIONALLY MANDATED 16 PERCENT REDUCTION IN BUDGETED OPERATING FUNDS WITHOUT ANY NEED FOR FURLOUGH ACTION. I APPRECIATE THE TREMENDOUS EFFORTS MADE BY GSA STAFF WHICH ALLOWED US TO REACH THIS POINT. THESE AND CONTINUED EFFORTS TO CARRY OUT COST SAVINGS MEASURES HAVE TRULY ENABLED GSA TO "DO MORE WITH LESS."

WE ARE MOVING OUT ON OTHER ACTIONS THAT WE BELIEVE WILL TAKE US IN THE DIRECTION WE NEED TO GO.

- IN THE PUBLIC BUILDINGS AREA, WE HAVE REDUCED GSA OCCUPIED SPACE BY 20% AND ARE WORKING WITH OTHER FEDERAL AGENCIES TO CARRY OUT SIMILAR SPACE REDUCTIONS. AS THESE EFFORTS PROCEED, AND AS THE SIZE OF GOVERNMENT SHRINKS, WE WILL MOVE FROM LEASED SPACE INTO GOVERNMENT-OWNED SPACE. WE ARE UNDERTAKING PROGRAMS TO BETTER MANAGE OUR SPACE AND BUILDING SERVICES, AND TO STREAMLINE OUR LEASING PROCESSES AND PROCEDURES.

- IN OUR SUPPLY DISTRIBUTION SYSTEM, WE ARE IMPROVING OUR SUPPORT TO THE DEPARTMENT OF DEFENSE AND OTHER FEDERAL AGENCIES THROUGH A STREAMLINING OF THE SYSTEM, REDUCTION IN THE PROCUREMENT LEADTIME, AND THE INSTITUTION OF A NUMBER OF CHANGES IN THE FURNITURE ACQUISITION AREA.

- IN THE AREA OF FEDERAL TRAVEL, WE HAVE INITIATED PROGRAMS THAT WILL SAVE THE GOVERNMENT OVER $60 MILLION THIS YEAR IN AIRLINE AND HOTEL COSTS. AUDITS OF TRANSPORTATION CHARGES BY COMMERCIAL CARRIERS RESULTED IN THE RECOVERY OF $12 MILLION LAST YEAR AND PUBLIC UTILITY RATE INCREASES CHALLENGED BY GSA ARE ESTIMATED TO HAVE SAVED THE GOVERNMENT $20 MILLION.

- PROCEEDS FROM THE SALE OF SURPLUS PERSONAL PROPERTY AND REAL PROPERTY WERE $102 MILLION IN FY 1981. PROCEEDS FROM STOCKPILE SALES WERE $70 MILLION, FOR A TOTAL OF $172 MILLION IN PROCEEDS. WE ESTIMATE $392 MILLION IN SALES PROCEEDS FOR FY 1982. WE ARE CONSOLIDATING OUR DISPOSAL OPERATIONS FROM 10 REGIONS TO FOUR ZONES.

WHICH WILL REDUCE OVERHEAD AND INCREASE EFFICIENCY AND SAVINGS IN THIS AREA.

- WE HAVE INITIATED A NATIONWIDE PROGRAM TO REDUCE THE COST OF TELECOMMUNICATIONS SERVICES USED BY FEDERAL AGENCIES. WE BELIEVE WE CAN SAVE $65 MILLION ANNUALLY BY REDUCING THE NUMBER OF TELEPHONES AND RESTRICTING THE LEVELS OF SERVICE.

- IN THE NATIONAL ARCHIVES AND RECORDS SERVICE, WE ARE CONCENTRATING OUR EFFORTS ON THE IMPORTANT WORK OF PRESERVATION, AND ARE TAKING MANAGEMENT ACTIONS IN THE RECORDS AREA TO MAKE THAT OPERATION MORE COST-EFFECTIVE.

- WE'RE WORKING TO CONTRACT FOR SERVICES TRADITIONALLY PROVIDED BY FEDERAL WORKERS WHEN PRIVATE BUSINESS CAN PERFORM THEM CHEAPER.

- OUR INSPECTOR GENERAL'S OFFICE HAS IDENTIFIED $86.3 MILLION IN RECOMMENDED SAVINGS. WE HAVE INSTITUTED PROGRAM CONTROL AND OVERSIGHT OFFICES TO MAKE CERTAIN THAT THESE SAVINGS ARE REALIZED.

- WE'VE ADDRESSED CRIMINAL, CIVIL AND ADMINISTRATIVE ALLEGATIONS REGARDING GSA EMPLOYEES, PROGRAMS AND ACTIVITIES, REFERRING CRIMINAL MATTERS TO PROSECUTING AUTHORITIES. WE'VE SECURED DEBARMENTS AND RECOMMENDED SUSPENSION OF PRIVATE CONTRACTORS. A POTENTIAL RECOVERY EXISTS OF MORE THAN $4.2 MILLION.

FINALLY, I WOULD LIKE TO MENTION ONE OTHER IMPORTANT INITIATIVE. IN THE LAST SEVERAL WEEKS WE HAVE UNDERTAKEN A MAJOR MOVE TO STRENGTHEN OUR REGIONAL OPERATIONS. PRIOR TO THIS MOVE, AN OVERWHELMING PROPORTION OF GSA'S SENIOR EXECUTIVE TALENT HAS BEEN CONCENTRATED IN THE WASHINGTON, D.C. CENTRAL OFFICE. WE NEED THESE PEOPLE AND THEIR TALENT OUT IN THE FIELD TO HELP US GET THE JOB DONE BETTER AND AT LESS COST TO THE TAXPAYERS. BY MAY 23, 1982, 24 SENIOR EXECUTIVE SERVICE POSITIONS WILL BE TRANSFERRED TO OUR REGIONAL OFFICES; THIS MOVE IS BEING MADE AS AN INTEGRAL PART OF A GSA ORGANIZATION PLAN WHICH WILL STREAMLINE REGIONAL OPERATIONS TO DO THE SAME WORK WITH FEWER PEOPLE.

The plan calls for a new structure which will consolidate in each region GSA's six groups of operations into three. The three groups are: the Office of Public Buildings and Real Property, responsible for all government real property; the Office of Personal Property, responsible for government property other than real estate; and the Office of Records and Information Resources, managing the use of records, computers and telecommunications systems.

Regional operations will be further streamlined through the Office of the Regional Controller and the Office of Project Control and Oversight. The regional controller will provide the regional administrator with internal control over personnel and budget. The newly created Office of Project Control and Oversight, to be headed by the deputy regional administrator, will provide control over projects and programs which cut across services and geographical lines.

I would now like to make a few brief remarks concerning GSA's 1983 budget request. In accordance with the President's budget, we are requesting $508.7 million in appropriations for fiscal year 1983. We are also requesting about $2 billion in Federal Buildings Fund new obligational authority.

Under appropriated accounts, the largest change in the budget request, both in concept and funding, involves the proposed conversion of our supply operation function to industrial funding. While this results in a decrease of over $83 million in the 1983 appropriation request, its primary purpose is to allow for a much more businesslike operation, particularly in our ability to respond to fluctuating demand, and to reflect accurately true supply costs in Federal agency budgets. We will be able to compare the cost-effectiveness of this method of supply delivery with other procurement sources. A companion proposal has been submitted to Congress to make necessary changes in our authorizing legislation.

Directly associated with this conversion to industrial funding are two other specific items in the fiscal 1983 budget. The first is a

REQUEST FOR A ONE-TIME $15 MILLION APPROPRIATION NEEDED TO MAINTAIN CASH LIQUIDITY IN THE GENERAL SUPPLY FUND. THIS WILL AVOID CASH DRAWDOWN BETWEEN THE TIME THAT SALARY PAYMENTS ARE MADE AND THE TIME THAT THESE COSTS ARE RECOVERED THROUGH THE SUPPLY PRICING MECHANISM. THE SECOND IS A REQUEST FOR $10 MILLION FOR REQUIRED MODERNIZATION OF OUR SUPPLY DEPOT FACILITIES, WHICH WILL GREATLY IMPROVE THE PRODUCTIVITY AND COST-EFFECTIVENESS OF THE SUPPLY DELIVERY MISSION. THIS MODERNIZATION IS PART OF OUR REALIGNMENT OF THE ENTIRE SUPPLY DISTRIBUTION SYSTEM. WE PLAN TO CONSOLIDATE OUR OPERATIONS INTO 8 FULL SERVICE DEPOTS AND 23 RETAIL SERVICE CENTERS. WITH THE MODERNIZATION OF BOTH OUR FACILITIES AND OUR MERCHANDISING TECHNIQUES, WE WILL BE ABLE TO MEET THE GROWING DEMANDS PLACED ON US BY THE DEPARTMENT OF DEFENSE AS WELL AS TO SERVE THE NEEDS OF THE OTHER AGENCIES OF GOVERNMENT.

ANOTHER LEGISLATIVE PROPOSAL HAS BEEN SUBMITTED TO ALLOW GSA TO USE COMMERCIAL FIRMS TO SUPPORT POSTPAYMENT AUDITS OF TRANSPORTATION VOUCHERS PRESENTED BY CARRIERS TO GOVERNMENT AGENCIES. IN FISCAL YEAR 1981, GSA IDENTIFIED OVER $12 MILLION IN OVERCHARGES IN VOUCHERS AUDITED, BUT RESOURCE CONSTRAINTS HAVE RESULTED IN A BACKLOG. THE USE OF COMMERCIAL FIRMS AND METHODS MAY IMPROVE CONSIDERABLY THIS SITUATION AND INCREASE RECOVERY OF OVERCHARGES. $1.1 MILLION FROM ANTICIPATED RECEIPTS IS BUDGETED FOR THIS PURPOSE IN 1983.

WE ARE REQUESTING A TOTAL OF $120 MILLION IN FISCAL 1983 FOR THE STOCKPILE PROGRAM AS A STEP TOWARD MEETING OUR OBJECTIVES FOR ACQUISITION OF STRATEGIC AND CRITICAL MATERIALS NEEDED TO SUPPORT OUR DEFENSE POSTURE.

THE REMAINDER OF OUR APPROPRIATED EFFORTS DO NOT CHANGE SUBSTANTIALLY IN FISCAL 1983, ALTHOUGH $25.8 MILLION IS NEEDED TO CONTINUE THESE ONGOING PROGRAMS AT THE LEVEL THEY WOULD HAVE BEEN DURING 1982 HAD NOT ONE-TIME REDUCTIONS BEEN NECESSARY TO MEET CONTINUING RESOLUTION CONSTRAINTS. THE LEVEL REQUESTED IN FY 1983 WILL PERMIT US TO PROCEED IN AN ORDERLY AND EFFICIENT WAY TO CONTINUE TO REDUCE THE COSTS AND IMPROVE THE EFFICIENCY OF GSA OPERATIONS.

A MAJOR CHANGE IN THIS BUDGET REQUEST IS THE CONSOLIDATION OF THE APPROPRIATION FOR THE FEDERAL SUPPLY SERVICE, THE AUTOMATED DATA AND TELECOMMUNICATIONS SERVICE AND THE TRANSPORTATION AND PUBLIC UTILITIES SERVICE. THIS CONSOLIDATION WILL PROVIDE US WITH GREATER FLEXIBILITY AND THE MEANS TO MORE EFFECTIVELY MANAGE THESE PROGRAMS.

ALL OF THE MAJOR ASPECTS OF THE BUDGET ARE TREATED MORE FULLY IN A SPECIAL HIGHLIGHT SUMMARY PREPARED FOR YOUR USE, WHICH I WOULD LIKE TO SUBMIT FOR THE RECORD.

IN CONCLUSION, THE FISCAL YEAR 1983 BUDGET REQUEST CONSTITUTES OUR ASSESSMENT OF THE RESOURCES NEEDED TO ACCOMPLISH GSA'S MISSION. I SUPPORT IT FULLY, AND WILL CONTINUE TO PURSUE AGGRESSIVELY THOSE PROGRAM, ORGANIZATIONAL, AND MANAGEMENT INITIATIVES THAT WILL IMPROVE SERVICE DELIVERY AT LESS COST TO THE TAXPAYER. WE TOOK A NUMBER OF STEPS IN THAT DIRECTION IN 1982. WITH YOUR SUPPORT, AND THIS BUDGET WE CAN GO FURTHER TOWARD THAT END IN THE COMING YEAR.

SUMMARY STATEMENT

Mr. CARMEN. I am about to complete my first year as Administrator of GSA. In that year, I believe we have made substantial progress in this agency toward achieving President Reagan's objective of making the Federal Government a leaner, more efficient and more cost-effective operation. We are well on our way to carrying out the role of GSA as originally outlined by the Hoover Commission. That role is to provide broad policy guidance in the management of the executive branch of the Government, in partnership with the Office of Management and Budget and the Office of Personnel Management.

We have begun to regain the confidence of other Federal agencies, the public, and the Congress. The words of praise for GSA's actions that have appeared in the Congressional Record over the past year are an indication of the changing view of our agency. So, too, are the many positive newspaper and magazine articles that have been written during that time.

We have heard from a number of Federal agencies expressing their support of our successful efforts in providing needed services in a timely and cost-effective manner.

While considerable attention is given to defense and domestic programs, little notice is given to how the Government manages its assets. In an $800 billion Federal budget, considerable savings can be effected by good management, and these funds could go a long way toward balancing the budget. I believe that GSA has made and can continue to make a considerable contribution toward such savings. The result also would be a Federal Government, in addition to a GSA, in which the American taxpayers could have confidence.

I am proud of GSA's performance in the last year. We introduced a number of wide ranging initiatives which have significantly reduced operating expenditures. As part of this effort, we reduced turnabout time for delivery of supplies to customers, enhanced responsiveness to clients, applied sound business principles to improve operations, aggressively sought to eliminate waste, fraud, and abuse within the agency, increased our oversight activities, and instituted a number of initiatives that have improved operations and resulted in significant cost savings. During this same period, GSA's total employment declined by about 2,700. These actions have not been easy, but the results speak for themselves. We have made real progress in carrying out the responsibility of GSA in the executive branch, that is, helping to manage the Federal Government better.

The actions also have enabled us to meet the congressionally mandated 16 percent reduction in budgeted operating funds without any need for furlough action. I appreciate the tremendous efforts made by GSA staff which allowed us to reach this point. These and continued efforts to carry out cost savings measures have truly enabled GSA to "do more with less."

We are moving out on other actions that we believe will take us in the direction we need to go.

PUBLIC BUILDINGS SERVICE

For example, in the public buildings area, we have reduced GSA-occupied space by 20 percent and are working with other Federal agencies to carry out similar space reductions. As these efforts proceed, and as the size of Government shrinks, we will move from leased space into Government-owned space. We are undertaking programs to better manage our space and building services, and to streamline our leasing processes and procedures.

There are a number of other specific actions we have taken which are outlined in my full statement.

However, I would like to mention one other important initiative. In the last several weeks we have undertaken a major move to strengthen our regional operations. Prior to this move, an overwhelming proportion of GSA's senior executive talent has been concentrated in the Washington, D.C. central office. We need these people and their talents out in the field to help us get the job done better and at less cost to the taxpayers. By May 23, 1982, 24 senior executive service positions will be transferred to our regional offices; this move is being made as an integral part of a GSA organization plan which will streamline regional operations to do the same work with fewer people.

I would now like to make a few brief remarks concerning GSA's 1983 budget request. In accordance with the President's budget, we are requesting $508.7 million in appropriations for fiscal year 1983. We are also requesting about $2 billion in Federal buildings fund new obligational authority.

Under appropriated accounts, the largest change in the budget request, both in concept and funding, involves the proposed conversion of our supply operation function to industrial funding. While this results in a decrease of over $83 million in the 1983 appropriation request, its primary purpose is to allow for a much more businesslike operation, particularly in our ability to respond to fluctuating demands, and to reflect accurately true supply costs in Federal agency budgets. We will be able to compare the cost effectiveness of this method of supply delivery with other procurement sources. A companion proposal has been submitted to Congress to make necessary changes in our authorizing legislation.

The remainder of our appropriated efforts do not change substantially in fiscal 1983, although $25.8 million is needed to continue these ongoing programs at the level they would have been during 1982 had not one-time reductions been necessary to meet continuing resolution constraints. The level requested in fiscal year 1983 will permit us to proceed in an orderly and efficient way to continue to reduce the costs and improve the efficiency of GSA operations.

A major change in this budget request is the consolidation of the appropriations for the Federal Supply Service, the Automated Data and Telecommunications Service, and the Transportation and Public Utilities Service. This consolidation will provide us with greater flexibility and the means to more effectively manage these programs

All of the major aspects of the budget are treated more fully in a special highlight summary prepared for your use, which I would like to submit for the record.

[The information follows:]

GENERAL SERVICES ADMINISTRATION
ESTIMATES OF APPROPRIATIONS, 1983

INTRODUCTORY STATEMENT

The General Services Administration was established July 1, 1949, by Section 101 of the Federal Property and Administrative Services Act of 1949 (63 Stat. 379). This Act consolidated and transferred to GSA a variety of real and personal property and related functions formerly assigned to various agencies. Subsequent laws and Executive Orders have amended the original Act and assigned additional functions and programs.

GSA is organized into operating services and supporting staff offices, with functions carried out through 11 Regional Offices and various field activities. Basic operations are provided for in three operating expenses appropriations:

Operating Expenses, Personal Property - Provides for management of supplies, property management, and procurement support for a worldwide supply system; direction and coordination of Government-wide transportation and travel management, management of motor equipment and public utilities, the audit of Government transportation bills, the processing of transportation claims by and against the U.S. Government; and the management, procurement, and utilization of automatic data processing, telecommunications, and office information equipment and services;

Operating Expenses, NARS - Provides for basic operations dealing with management of the Government's archives and records, operation of Presidential libraries, review and declassification of documents, and oversight of the information security program;

Operating Expenses, FPRS - Provides for acquisition, administration and disposal of National Defense Stockpile inventories; administration and disposal of the Defense Production Act inventory; utilization and disposal of excess and surplus real and personal property and rehabilitation of personal property.

Policy direction and coordination of all GSA programs including acquisition policy and all staff support services are provided for in an appropriation for General Management and Administration, Salaries and Expenses. Agencywide audit and investigative functions are provided for in an appropriation for Inspector General. In addition, substantial financing is provided by transfers and reimbursements from funds appropriated directly to other agencies of Government for services performed at their request. These reimbursable-type services are financed and accounted for under revolving funds such as the General Supply Fund, the Federal Telecommunications Fund, the Automatic Data Processing Fund, and the Working Capital Fund.

In addition to the Operating Expenses appropriation for the National Archives and Records Service, operations are also financed by the National Archives Trust and Gift Funds.

The Allowances and Office Staff for Former Presidents appropriation provides for pensions and the cost of postal franking privileges for widows of former Presidents and for the pensions, office staffs, and related expenses of former Presidents. The Expenses, Presidential Transition appropriation provides funding for the incoming and outgoing President and Vice President.

In addition to the Operating Expenses appropriation for the Federal Property Resources Service, the acquisition of strategic and critical materials and related transportation costs are financed out of receipts from disposal sales of excess stockpile materials under an appropriation for the National Defense Stockpile Transaction Fund.

The Federal Buildings Fund finances the activities of the Public Buildings Service which provides space and services for Federal agencies in a relationship similar to that of landlord and tenant. This Fund was established in 1975 and replaces direct appropriations by using income derived from rent assessments (standard level user charges -- SLUC) which approximate commercial rates for comparable space and services. When requested by Federal agencies, the Public Buildings Service provides reimbursable building services such as tenant alterations, cleaning and other operations, and protection services which are in excess of those services provided under the standard level user charge.

SUMMARY OF BUDGET ESTIMATES FOR 1983 AND COMPARISON TO 1982

	FY 1982 Amounts	FY 1983 Budget Estimates	Change 1982 to 1983
BASIC OPERATIONS			
1. Operating Expenses, Personal Property	$144,469,000	$91,731,000	-52,738,000
2. Operating Expenses, NARS	75,106,000	85,293,000	+10,187,000
3. Operating Expenses, FPRS	39,991,000	46,966,000	+6,975,000
4. Salaries & Expenses, GMA	111,676,000	127,304,000	+15,628,000
5. Inspector General	17,006,000	19,764,000	+2,758,000
Subtotal	$388,248,000	$371,058,000	-17,190,000
OTHER APPROPRIATION ITEMS			
6. General Supply Fund (Capital)	$ -	$ 15,000,000	+15,000,000
7. NARS Gift Fund (Permanent/indefinite)	184,000	184,000	-
8. Stockpile Transaction Fund (Current/special)	57,600,000	120,000,000	+62,400,000
Rotation (Permanent/indefinite/special)	67,000	-	-67,000
9. Expenses, Disposal (Permanent)	1,000,000	1,000,000	-
10. William Langer Jewel Bearing Plant	-	396,000	+396,000
11. Allowances & Office Staff for Former Presidents	1,062,000	1,106,000	+44,000
12. Economic Opportunity Act Closeout Activities	12,000,000	-	-12,000,000
Subtotal	$71,913,000	$137,686,000	+65,773,000
TOTAL	$460,161,000	$508,744,000	+48,583,000
LIMITATION ITEM			
13. Federal Buildings Fund (New Obligational Authority)	($1,869,168,000)1/	($2,028,101,000)	(+158,933,000)

1/ Includes proposed program supplemental of $857,000.

NOTE: Excludes Consumer Information Center.

CHANGES IN BUDGET PROGRAM 1/

FY 1982 vs. FY 1983
(Dollars in thousands)

FY 1982 BUDGET PROGRAM		$460,161
NET CHANGE		+48,583
NON-PROGRAM CHANGES	-73,289	
Industrial funding for supply operations	-83,294	
One-time Community Services Administration closeout costs in FY 1982	-12,000	
FY 1982 pay supplemental not shown	+12,409	
Decreased FY 1983 pay raise needs	-2,433	
New indefinite appropriation for Transportation Audit	+1,080	
Inflationary increases (SLUC, purchases, etc.)	+11,016	
Stockpile Trans. Fund rotation receipts in FY 1982	-67	
NEW MISSIONS	+8,303	
Institute for Computer Sci. & Tech. (from Commerce)	+7,131	
Printing of documents, formerly GPO (NARS)	+1,172	
PROGRAM INCREASES	+87,796	
Increased stockpile procurement	+62,400	
Wm. Langer Jewel Bearing Plant capitalization	+396	
One-time GSF cash augmentation	+15,000	
Supply Depot facilities modernization	+10,000	
COST OF RESTORING FY 1982 PROGRAM SHORTFALLS	+25,773	
This is the amount that would continue FY 1982 programs had one-time reductions and delays not been required by Public Law 97-92, Continuing Appropriations		
FY 1983 BUDGET PROGRAM		$508,744

1/ Excludes Consumer Information Center.

FY 1982 BUDGET AUTHORITY CHRONOLOGY

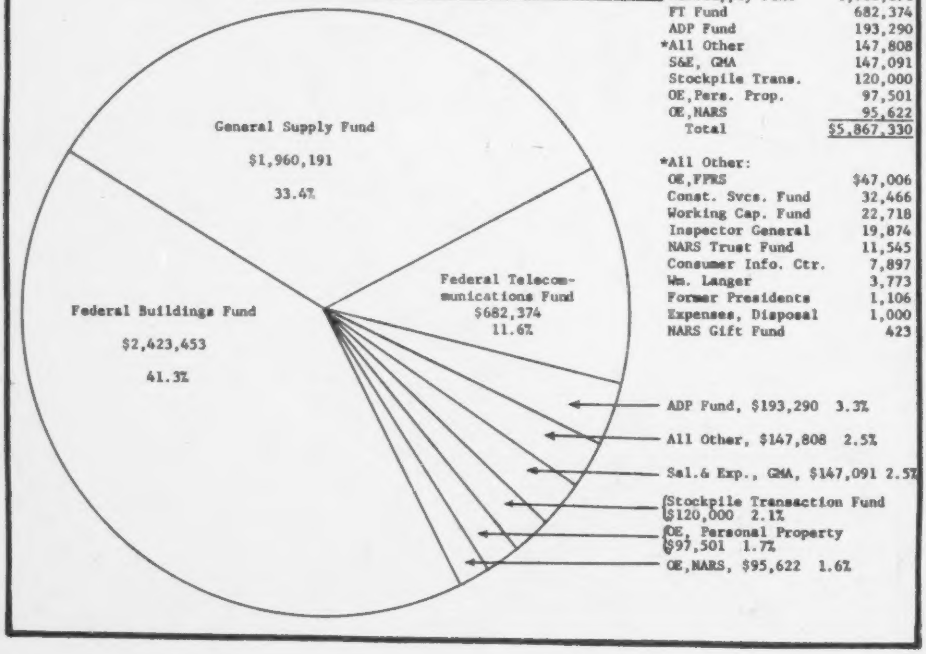
(Dollars in thousands)

	APPROPRIATION (CONTINUING RESOLUTION)	FUNCTIONAL TRANSFERS		PAY SUPPLEMENTAL EXCLUDED	REVISED BUDGET PROGRAM
		BSC/FIC	OTHER		
OPERATING EXPENSES, FSS	114,168	+1,140	-	(4,003)	115,308
OPERATING EXPENSES, TPUS	14,559	-	-	(611)	14,559
OPERATING EXPENSES, NARS	76,122	-	-1,016	(1,792)	75,106
NARS GIFT FUND (PERMANENT/INDEFINITE)	184	-	-	-	184
OPERATING EXPENSES, ADTS	11,319	+2,080	+1,203	(390)	14,602
OPERATING EXPENSES, FPRS	39,991	-	-	(998)	39,991
NATL. DEFENSE STOCKPILE TRANSACTION FUND ROTATION (PERMANENT/INDEFINITE/SPECIAL)	57,600 67	- -	- -	- -	57,600 67
EXPENSES, DISPOSAL (PERMANENT APPROPRIATION)	1,000	-	-	-	1,000
S&E, GENERAL MANAGEMENT & ADMINISTRATION	115,083	-3,220	-187	(4,267)	111,676
INSPECTOR GENERAL	17,006	-	-	(348)	17,006
FORMER PRESIDENTS	1,062	-	-	-	1,062
ECONOMIC OPPORTUNITY ACT CLOSEOUT ACTIVITIES	12,000	-	-	-	12,000
SUBTOTAL	460,161	-	-	(12,409)	460,161
CONSUMER INFORMATION CENTER	1,290	-	-	(29)	1,290
TOTAL, GSA	461,451	-	-	(12,438)	461,451

Total $5,867,330

GENERAL SERVICES ADMINISTRATION
TOTAL OBLIGATIONS
FY 1983 Estimate
(Dollars in thousands)

February 5, 1982



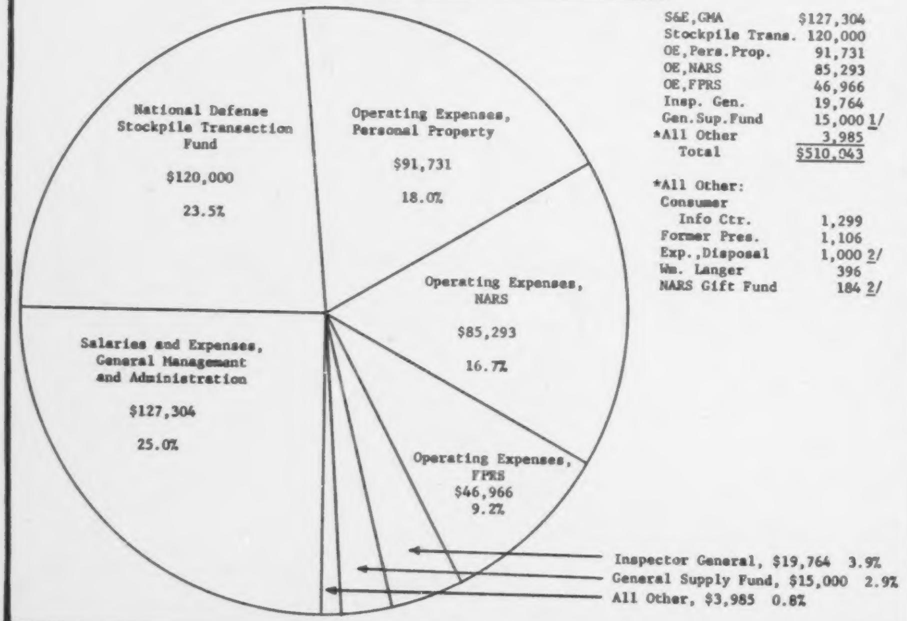
Fed.Bldgs.Fund	$2,423,453
Gen.Supply Fund	1,960,191
FT Fund	682,374
ADP Fund	193,290
*All Other	147,808
S&E, GMA	147,091
Stockpile Trans.	120,000
OE,Pers. Prop.	97,501
OE,NARS	95,622
Total	$5,867,330

*All Other:	
OE,FPRS	$47,006
Const. Svcs. Fund	32,466
Working Cap. Fund	22,718
Inspector General	19,874
NARS Trust Fund	11,545
Consumer Info. Ctr.	7,897
Wm. Langer	3,773
Former Presidents	1,106
Expenses, Disposal	1,000
NARS Gift Fund	423

Total $510,043

GENERAL SERVICES ADMINISTRATION
TOTAL BUDGET AUTHORITY
FY 1983 Estimate
(Dollars in thousands)

February 5, 1982



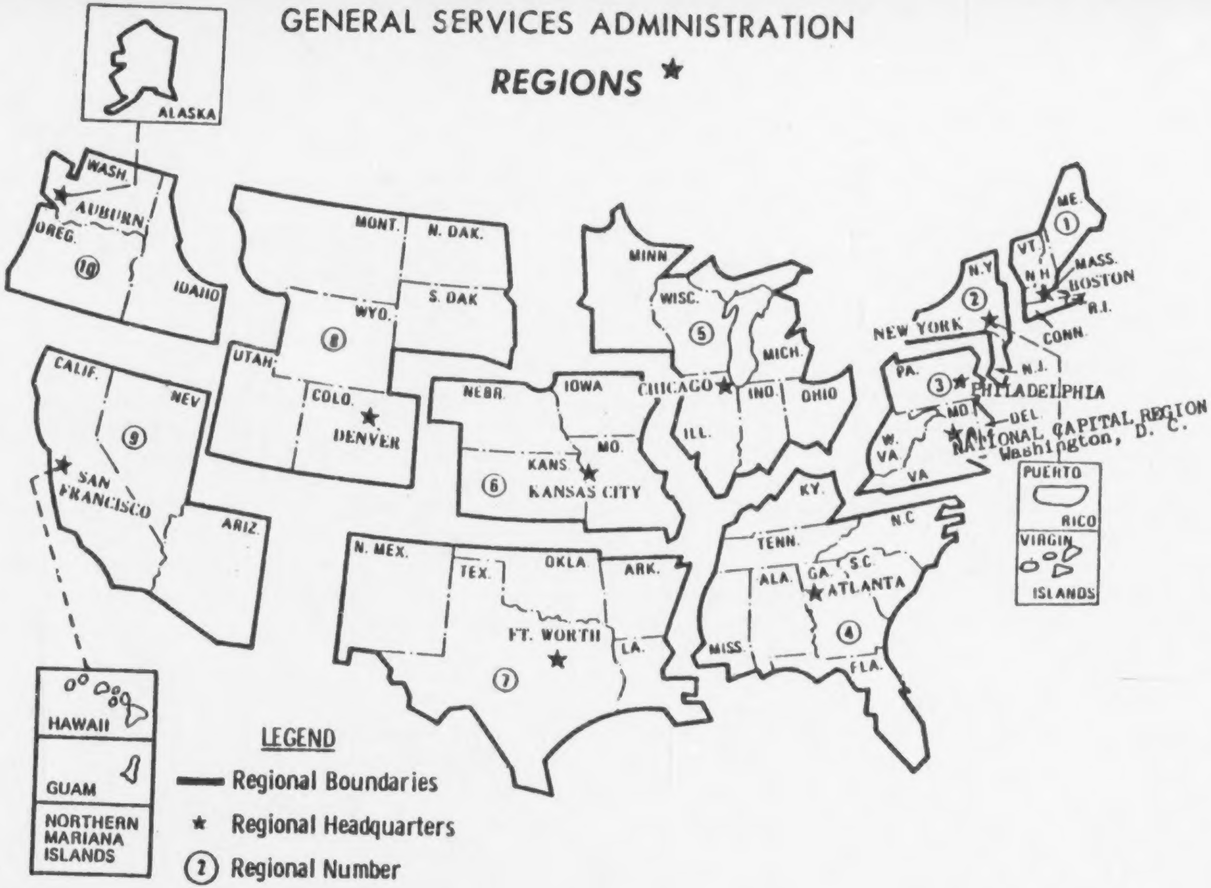
S&E,GMA	$127,304
Stockpile Trans.	120,000
OE,Pers.Prop.	91,731
OE,NARS	85,293
OE,FPRS	46,966
Insp. Gen.	19,764
Gen.Sup.Fund	15,000 1/
*All Other	3,985
Total	$510,043

*All Other:	
Consumer Info Ctr.	1,299
Former Pres.	1,106
Exp.,Disposal	1,000 2/
Wm. Langer	396
NARS Gift Fund	184 2/

1/ Capital.
2/ Permanent/indefinite.

GENERAL SERVICES ADMINISTRATION

REGIONS *


ALASKA
WASH.
AUBURN
OREG.
10
IDAHO
MONT.
N. DAK.
WYO.
S. DAK
8
UTAH
COLO.
DENVER
CALIF.
NEV
9
SAN FRANCISCO
ARIZ.
MINN
WISC.
5
MICH.
CHICAGO
IOWA
IND.
OHIO
ILL.
NEBR.
KANS.
MO.
6
KANSAS CITY
N. MEX.
TEX.
OKLA.
ARK.
FT. WORTH
LA.
7
KY.
TENN.
N.C
ALA.
GA.
S.C.
ATLANTA
4
MISS.
FLA.
ME.
1
VT.
N.H.
MASS.
BOSTON
R.I.
N.Y.
2
NEW YORK
CONN.
N.J.
PA.
3
PHILADELPHIA
MD.
DEL.
W. VA.
VA.
NATIONAL CAPITAL REGION
Washington, D. C.
PUERTO RICO
VIRGIN ISLANDS
HAWAII
GUAM
NORTHERN MARIANA ISLANDS
LEGEND
Regional Boundaries
★ Regional Headquarters
② Regional Number

* GSA's regional organization generally conforms to the standard Federal region structure.

LEGISLATIVE CHANGES PROPOSED AFFECTING THE FY 1983 BUDGET

Industrial Funding Legislation. - The proposed legislation would amend section 109 of the Federal Property and Administrative Services Act of 1949, as amended (40 U.S.C. 756), to authorize the General Services Administration (GSA) to add the cost of contracting, procurement, inspection, storage, management, distribution and accountability to the prices charged Federal agencies for certain supplies and materials provided through the various methods of supply utilized by the GSA Federal Supply System.

At present, the prices paid by customer agencies do not include the costs incurred by GSA in the procurement, warehousing, and distribution of the items provided. Agencies pay only the purchase price plus transportation; other costs are financed through direct annual appropriation to GSA. Under industrial funding, many of these operating expenses now financed by appropriations would be recovered through the prices charged customer agencies.

This proposal would allow for a much more business-like operation, provide flexibility by permitting resource levels to fluctuate with demand, and result in a more accurate reflection of true supply costs in Federal agency budgets. It would lower the GSA requirement for direct annual appropriations by shifting the requirement to the other agencies using the supply system.

Transportation Audits Legislation. - GSA is responsible for performing postpayment audits of transportation vouchers presented by carriers to Government agencies. During fiscal year 1981, over $12 million in overcharges were identified by GSA in the vouchers audited. However, resource constraints are resulting in an increasing backlog of items to be audited, causing the Government a delay in the recovery and use of the money owed to it. Additionally, the number of vouchers audited on a sampling basis must be constrained by the resources available for the audit function.

Proposed revisions to 31 U.S.C. 244 would authorize GSA to use commercial audit firms to conduct all phases of the transportation audit function. The legislation authorizes the use of receipts recovered as a result of the audits to pay contract costs and other directly related costs not provided for through other appropriations. Refunds to carriers, forwarders, Government agencies, and any other party for erroneous collections and receipts will by made from the recovered receipts. At the end of each fiscal year any excess receipts paid to GSA would be transferred to the Treasury as miscellaneous receipts. Enactment of the legislation will result in increased collections of money owed to the Government and within a shorter timeframe.

Amendment to Section 111 of the Federal Property and Administrative Services Act of 1949. - This section authorizes and directs the Administrator of GSA to coordinate and provide for the economic and efficient purchase, lease, maintenance, operation and utilization of automatic data processing (ADP) equipment by Federal agencies. In the proposed amendments to Section 111, authorities delegated to the Secretary of Commerce for ADP scientific and technological advisory services, standards recommendations, and research would be transferred to the Administrator of GSA. Fiscal and policy control would still be exercised by the Office of Management and Budget.

The proposed amendments to Section 111 would eliminate the fragmentation between GSA and Commerce in the management of the Government's ADP program. Consolidating responsibility for the program would significantly contribute to the establishment of a more cohesive, more efficient, and less costly management structure for the Federal Government's ADP program.

This legislation will be submitted jointly by GSA and the Department of Commerce.

FY 1983 budget estimates for the Operating Expenses, Personal Property appropriation and the Automatic Data Processing Revolving Fund are consistent with this proposed legislation.

EXPLANATION OF CHANGES IN THE WORDING OF APPROPRIATION LANGUAGE FOR FY 1983

FEDERAL BUILDINGS FUND

The FY 1983 Federal Buildings Fund proposed language includes four major changes from previously enacted legislation; 1) to permit options to purchase real property; 2) to permit liquidation of claims against direct construction projects through the use of available savings; 3) to eliminate the requirement that funds for direct construction or repairs and alterations prospectus projects be obligated in whole or in part within two years; and 4) to provide a process to facilitate the approval of project escalations over ten percent when necessary.

1. The authority to purchase options to buy existing buildings and sites will facilitate GSA's efforts to improve the ratio of Government-owned vs. leased space. An option will give the Government the exclusive right to purchase a piece of property at a set price up until a given date. This secures the property for the Governmment until the purchase of the property can be authorized and funded by Congress. Given the inflationary conditions in the real estate market, the capability to hold the price of a given property constant until Congress can approve its purchase will result in significant savings to the Government.

2. Claims often arise and are settled long after a project is completed and funds for that particular project are no longer available even though the total amount authorized has not been exceeded as in the case of Purchase Contract projects and projects which were authorized prior to the implementation of the Federal Buildings Fund method of financing. In these cases the General Services Administration must, under current legislation, request and receive new obligational authority for the payment of each claim. This process may take from nine to eighteen months and cause considerable delay in the payment of settled claims. In many instances the Government is required to pay interest in the interim between settlement and payment. Thus, these delays are costly to the Government as well as unduly inconvenient to the contractor. By giving GSA limited authority to pay claims from savings when other funds are not available, payment of small claims would no longer be significantly delayed after settlement. The result of the prompt payment of claims will benefit both contractors and the Government alike. The contractor will not suffer any weakening of his financial position and the Government will realize savings through reduced accrued interest payments.

3. Funds authorized by Congress for new construction and repairs and alterations with a no-year limitation should remain available unless specifically rescinded by Congress since each project is appropriated on its own merits rather than automatically deleted from the program when extenuating circumstances cause a project to be delayed.

4. The proposed language for escalation of repairs and alterations projects costs provides an appropriate vehicle outside of the annual budget process to facilitate the approval of project escalations over ten percent when necessary. The Committee will still retain full control over the project while at the same time allowing GSA to complete its repairs and alterations projects in a more timely manner.

OPERATING EXPENSES, PERSONAL PROPERTY

This new appropriation will replace the former appropriations "Operating Expenses, FSS", "Operating Expenses, TPUS", and "Operating Expenses, ADTS." Beginning in 1983, the amounts required for direct operation of the supply system, including personnel, space and other related costs, will be financed on a reimbursable basis through the General Supply Fund under proposed legislation. A new provision has been added to the language to provide that "...such amounts as may be necessary for transportation audit contracts and contract administration for which payments to any contractor shall not exceed 50 percent of the overpayments identified by any contract audit." This provision is in accordance with proposed revisions to 31 U.S.C. 244, which authorizes GSA to use commercial audit firms to conduct all phases of the GSA transportation audit function. The legislation also authorizes commercial audit firms to be paid from receipts collected by GSA as a result of postpayment audits. The receipts will also be used to pay for other direct expenses relating to contracting for audit and audit related activities, and other costs related to the administration of contracts for which no other funds have been appropriated. At the end of each year any excess receipts will be transferred from GSA to miscellaneous receipts of the Treasury.

OPERATING EXPENSES, NARS

The phrase "...of which $_____ for allocation and grants for historical publications and records as authorized by 44 U.S.C. 2504, as amended, shall remain available until expended" has been deleted as no grant funding is being requested in the 1983 President's Budget.

NATIONAL DEFENSE STOCKPILE TRANSACTION FUND

The fiscal year period of availability is proposed for deletion and the words "and shall remain available until expended" are proposed for addition since the Omnibus Budget Reconciliation Act of 1981 (P.L. 97-35) removed the provision on the Strategic and Critical Materials Stock Piling Act that the fiscal year availability is for a period of five years if so provided in appropriation acts and inserted in lieu thereof that appropriations are available until expended unless otherwise provided in appropriation acts.

GENERAL SERVICES ADMINISTRATION - GENERAL PROVISIONS

Sec. 1. The appropriate appropriation or fund available to the General Services Administration shall be credited with (1) cost of operation, protection, maintenance, upkeep, repair, and improvement, included as part of rentals received from Government corporations pursuant to law (40 U.S.C. 129) and (2) appropriations or funds available to other agencies, and transferred to the General Services Administration, in connection with property transferred to the General Services Administration pursuant to the Act of July 2, 1948 (50 U.S.C. 451ff) and such appropriations or funds may be so transferred, with the approval of the Office of Management and Budget.

This section is required to provide for income from wholly-owned Government Corporations and other agencies.

Sec. 2. Funds available to the General Services Administration shall be available for the hire of passenger motor vehicles.

This section provides the authority to GSA accounts, other than the General Supply Fund, to hire passenger vehicles from sources other than the GSA Motor Pool System. The authority is required in order to relieve the prohibition imposed by 31 U.S.C. Section 638(a) and to allow GSA to satisfy its requirements for vehicles from other sources when the motor pool system cannot supply the required vehicles.

Sec. 3. Appropriations available to any department or agency during the current fiscal year for necessary expenses, including maintenance or operating expenses, shall also be available for payment to the General Services Administration for charges for space and services and those expenses of renovation and alteration of buildings and facilities which constitute public improvements, performed in accordance with the Public Buildings Act of 1959 (73 Stat. 479), the Public Buildings Amendments of 1972 (86 Stat. 216), or other applicable law.

This section provides for payment of standard level user charges and for expenses of renovation and alteration from other agencies.

Sec. 4. Not to exceed three per centum of any appropriation in this Act or any other Act making appropriations to the General Services Administration may be transferred among such appropriations, excluding the Federal Buildings Fund, and any proposed transfers shall be reported promptly to the Committees on Appropriations of the House and Senate.

Sec. 5. Funds in the Federal Buildings Fund made available for fiscal year 1983 for Federal Buildings Fund activities may be transferred between such activities only to the extent necessary for mandatory program requirements. Any transfers shall be reported promptly to the Committees on Appropriations of the House and Senate.

Sections 4 and 5 provide a modest level of transfer authority which will allow GSA to provide for unforeseen emergencies. These sections provide for oversight on the purpose of its usage by requiring that " any...transfers shall be reported promptly to the Committees on Appropriations of the House and Senate."

Sec. 6. Funds made available by this or any other Act for the payment of rent shall be available for the purpose of leasing space without regard to section 322 of the Act of June 30, 1932, as amended (40 U.S.C. 278a).

Section 6 is necessary to override the Economy Act as it pertains to the prohibition of entering into a lease where the annual rental to be paid exceeds a certain percentage of the fair market value of the property.

APPROPRIATION: FEDERAL BUILDINGS FUND
(Direct Activities)
($ Thousands)

Provides for -- All aspects of the Public Buildings Service Direct Program, which furnishes space and related services to Federal Agencies. Included are:

> The acquisition of space through direct Federal Construction, or purchase of existing buildings, Repairs and Alteration of Public Buildings, Payments of Liabilities for Facilities acquired through the Purchase Contract Authority, acquisition of Space through Leasing and the day-to-day operations of Government-owned and Leased Facilities as well as general management and administration.

SUMMARY OF FEDERAL BUILDINGS FUND PROGRAM: (Compensable Work-years)	FY 1981	FY 1982	FY 1983	Change from 1982
	(13,342)	(12,962)	(12,411)	(-551)
1. Construction and Acquisition of Facilities	$ 53,992	$ 68,202	$ 95,394	$ 27,192
2. Repairs and Alterations	124,443	274,048	257,400	-16,648
3. Purchase Contract Payments	107,608	161,725	159,971	- 1,754
4. Rental of Space	632,650	722,439	770,000	47,561
5. Real Property Operations	559,281	626,346	676,524	50,178
6. Program Direction	79,371	88,585	95,791	7,206
Total Obligational Level	$1,557,345	$1,941,345	$2,055,080	$113,735
Recoveries of prior year obligations	- 6,552	-	-	-
Expired FY 1980 line item authority	4,704	-	-	-
Unobligated balance available, start of period from prior years	-340,391	-361,932	-289,755	+72,177
Unobligated balance available, end of period to be carried forward	361,932	289,755	262,776	-26,979
Unobligated balance unavailable, end of period	70,487	-	-	-
Total New Obligational Authority	$1,647,525	$1,869,168 1/	$2,028,101	$158,933

1/ New Obligational Authority enacted by Congress $1,868,311
Supplemental Appropriations Required for:
Construction and Acquisitions of Facilities (claims) 857
Total $1,869,168

APPROPRIATION: FEDERAL BUILDINGS FUND
($ thousands)

PROGRAM BY ACTIVITIES	FY 1981	FY 1982	FY 1983	Change From 1982
1. Construction and Acquisition of Facilities (Compensable Workyears)	(-)	(-)	(-)	(-)
Total Obligational Level	$53,992	$68,202	$95,394	$27,192
Recoveries of prior year obligations	-1,485	-	-	-
Unobligated Balance Available, Start of Period from Prior Years	-320,844	-286,465	-289,755	-3,290
Unobligated Balance Available, End of Period to be carried forward	286,465	289,755	262,776	-26,979
Total New Obligational Authority	$ 18,128	$ 71,492 1/	$ 68,415	$- 3,077

1/ Includes FY 1982 Supplemental of $857 thousand.

EXPLANATION

The 1983 obligational level for Direct Federal Construction of Public Buildings includes $54,747 thousand for projects authorized prior to FY 1981, $8,006 thousand for projects authorized in FY 1982, and $32,641 thousand related to projects in the FY 1983 request.

Obligational Authority is requested as follows:

New Construction:	
Birmingham, AL, Courthouse	$29,591
Youngstown, OH, Federal Building - Courthouse	10,062
Washington, DC, Federal Triangle Federal Building (Preliminary Design)	3,500
Extensions:	
New York, NY, U.N. Mission Building Extension	2,050
Acquisition of Excess U.S. Postal Service Properties:	
Sioux City, IA, Post Office - Courthouse	1,367
Greeneville, TN, Post Office - Courthouse	331
Norfolk, VA, Post Office - Courthouse	6,400
Purchase of Commercial Buildings:	
Dallas, TX, 555 Griffin Square Building	7,200
Other Selected Buildings	6,914
Construction Projects of less than $500,000 each	1,000
Total New Obligational Authority Requested	$68,415

APPROPRIATION: FEDERAL BUILDINGS FUND
($ thousands)

PROGRAM BY ACTIVITIES	FY 1981	FY 1982	FY 1983	Change From 1982
2. Repairs and Alterations (Compensable Work-years)	(-)	(-)	(-)	(-)
Total Obligational Level	$124,443	$274,048	$257,400	$-16,648
Recoveries of prior year obligations	-5,067	-	-	-
Expired FY 1980 Line Item Authority 1/	4,704	-	-	-
Unobligated balance available, start of period from prior years	-19,547	-75,467	-	75,467
Unobligated balance available, end of period to be carried forward	75,467	-	-	-
Total New Obligational Authority	$180,000	$198,581	$257,400	$ 58,819

Line Item Projects for which Authority Expired September 30, 1981

1/

Location	Amount	Reason for Expiration of Funds
Interior, Washington, DC	$ 798,000	Prospectus work completed with prior year funds.
U.S. Courthouse, Washington, DC	659,000	Prospectus work completed with prior year funds.
West Heating Plant, Washington, DC	1,894,000	Prospectus work completed with prior year funds.
Heating Plant, Arlington, VA	1,353,000	Project no longer required. Alternative solution underway.
Total	$4,704,000	

EXPLANATION

This activity provides for repairs and alterations on public buildings. GSA is responsible for providing such alterations, etc., for a projected total 223.7 million square feet in FY 1983. The change in the FY 1983 program over FY 1982 is categorized by major functional area as follows:

	FY 1982	FY 1983	Change
Basic Work to Correct Deterioration, Malfunction and Obsolescence	$108,505	$136,811	$28,306
Improvement to Space to Promote Utilization	34,821	58,383	23,562
Special Fire Prevention, Life Safety and Property Protection	19,190	35,960	16,770
Special Aids for the Handicapped	2,295	2,851	556
Special Environmental Protection Measures	600	2,772	2,172
Special Energy Conversation Measures	33,170	20,623	-12,547
Total New Obligational Authority	$198,581	$257,400	$58,819

APPROPRIATION: FEDERAL BUILDINGS FUND
($ thousands)

PROGRAM BY ACTIVITIES	FY 1981	FY 1982	FY 1983	Change From 1982
3. Purchase Contract Payments (Compensable Work-years)	(-)	(-)	(-)	(-)
a. Package System:				
1. 5 Projects under Purchase Contracts authorized by the Public Buildings Purchase Contract Act of 1954.	$ 2,349	$ 2,434	$ 2,469	$ 35
2. 23 projects under Purchase Contracts authorized by the Public Buildings Amendments of 1972.	12,234	11,954	12,047	93
Total, Package System Projects	$14,583	$14,388	$14,516	$ 128
b. Dual System:				
1. 45 projects under Purchase Contracts authorized by the Public Buildings Amendments of 1972.	93,025	147,337	145,455	-1,882
Total Obligational Level	107,608	161,725	159,971	-1,754
Unobligated balance unavailable, end of period.	766	-	-	-
Total New Obligational Authority	$108,374	$161,725	$159,971	$-1,754

EXPLANATION

This activity provides for the payment of principal, interest, taxes and other requirements related to the acquisition of facilities through purchase contract arrangements. Facilities are acquired under authorization of either the Purchase Contract Act of 1954 or the Public Buildings Amendments of 1972. Payments for a total of 73 projects are included in the FY 1982 and FY 1983 programs as follows:

	FY 1982	FY 1983	Increase or Decrease
Principal	$ 24,777	$ 26,695	$ 1,918
Interest	108,437	102,911	-5,526
Taxes	28,388	30,240	1,852
Other	123	125	2
Total	$161,725	$159,971	$-1,754

APPROPRIATION: FEDERAL BUILDINGS FUND
($ thousands)

PROGRAM BY ACTIVITIES	FY 1981	FY 1982	FY 1983	Change From 1982
4. Rental of Space (Compensable Work-years)	(-)	(-)	(-)	(-)
a. Rental of leased space and related services	$606,938	$694,839	$740,000	$ 45,161
b. Payments to United States Postal Service	25,712	27,600	30,000	2,400
Total Obligational Level	$632,650	$722,439	$770,000	$ 47,561
Unobligated balance unavailable, end of period	44,350 1/	-	-	-
Total New Obligational Authority	$677,000	$722,439	$770,000	$ 47,561

EXPLANATION

This activity provides for costs related to the acquisition of leased space, including payments for existing leases, projected new leases to be negotiated in FY 1983, rental rate increases projected to occur in FY 1983 and all related services furnished by lessors under terms of lease agreements. It also includes payments to USPS for space occupied in USPS buildings by Federal agencies for which GSA is responsible for providing space. The leased space inventory is expected to be 91.1 million square feet at the end of FY 1982, an increase of 0.8 million square feet. The total change in obligational level for FY 1983 is explained as follows:

Item	Amount
1. Agency expansion space to be acquired in FY 1983.	$ 7,900
2. Release of leased space in FY 1983.	-57,639
3. FY 1983 cost of leased space acquired in earlier time periods.	9,000
4. Commercial rental rate increase.	87,400
5. Increase in payment to USPS	2,400
6. FY 1983 saving due to leased space released in earlier time periods.	-1,500
Increase in Obligational Level	$47,561

1/ Includes $39,800 unallowed unavailable based on Senate Committee report.

APPROPRIATION: FEDERAL BUILDINGS FUND
($ Thousands)

PROGRAM BY ACTIVITIES	FY 1981	FY 1982	FY 1983	Change From 1982
5. Real Property Operations (Compensable Work-years)	(11,557)	(11,022)	(10,471)	(- 551)
a. Cleaning	$171,995	$194,776	$215,874	$ 21,098
b. Utilities and Fuel	192,203	218,135	234,948	16,813
c. Maintenance	93,120	102,971	108,594	5,623
d. Other Building Services	47,946	55,224	58,371	3,147
e. Protection	47,327	47,768	50,882	3,114
f. Contracts	6,690	7,472	7,855	383
Total Obligational Level	$559,281	$626,346	$676,524	$ 50,178
Unobligated balance unavailable, end of period	22,563	-	-	-
Total New Obligational Authority	$581,844	$626,346	$676,524	$ 50,178

EXPLANATION

This activity provides for the furnishing of buildings services in GSA-operated buildings. It includes cleaning, protection, maintenance, payments for utilities and fuel, and other miscellaneous activities such as grounds maintenance, elevator operations, and day-to-day servicing of tenant's needs.

The changes proposed for FY 1983 are for the following purposes:

1. Provision of buildings services in newly acquired space.	$ 2,587
2. Savings from release of space.	- 387
3. Increased fuel costs and utility rates.	18,351
4. Increased costs of service contracts, supplies and materials.	13,873
5. Full-year cost of the FY 1982 classified and wage board pay increases.	11,345
6. To provide increased cleaning for Headquarters Buildings.	7,173
7. Savings due to programmatic changes for energy conservation efforts.	-2,764
Total FY 1983 increase	$50,178

APPROPRIATION: FEDERAL BUILDINGS FUND
($ thousands)

PROGRAM BY ACTIVITIES	FY 1981	FY 1982	FY 1983	Change From 1982
6. Program Direction (Compensable Work-years)	(1,785)	(1,940)	(1,940)	-
a. Construction	4,718	5,902	6,428	526
b. Repairs and Alterations	2,655	3,006	3,182	176
c. Rental of Space	12,597	15,540	16,155	615
d. Real Property Operations	20,768	21,335	22,819	1,484
e. Contract Management	1,645	1,935	2,310	375
f. Centralized Services	22,004	22,585	25,149	2,564
g. Overall Direction	14,984	18,282	19,748	1,466
Total Obligational Level	$79,371	$88,585	$95,791	$7,206
Unobligated balance unavailable, end of period	2,808	-	-	-
Total New Obligational Authority	$82,179	$88,585	$95,791	$7,206

EXPLANATION

This activity finances personnel and other costs associated with the management, supervision and operation of all Federal Buildings Fund programs.

Changes in FY 1983 from FY 1982 are for the following purposes:

1. Full-year cost of the FY 1982 classified pay increase.	.$ 3,002
2. Increase for support services, e.g., printing, comm., training, postage and fees, and relocation changes.	1,586
3. Increases in other contractual services, supplies and materials due to inflation and increased requirements.	624
4. Increased cost of ADP	1,092
5. Unemployment Compensation and Employee Accident Compensation to be paid to Department of Labor.	662
6. Training associated with the Contract Officer Warranty Program.	240
Total FY 1983 Increase	$ 7,206

Subactivities:	FY 1981	FY 1982	FY 1983	Change from FY 1982	Explanation
c. Contract Management ($000)	$15,799	$13,858	$2,193	-$11,665	Provides for overall direction and coordination of quality assurance and contract administration programs to assure that vendors fully meet all terms and conditions of contracts, and that the quality of materials purchased complies with requirements of the contracts. A decrease of $11,750 thousand is due to the inclusion of the direct operational costs of this program in the General Supply Fund in FY 1983, under proposed legislation. This is partially offset by an increase of $85 thousand for pay costs.
(Total Compensable Work-years)	(477)	(438)	(60)	(-378)	
Total ($000)	$133,403	$115,308	$45,271	-$70,037	
(Total Compensable Work-years)	(3,762)	(3,535)	(913)	(-2,622)	
(Permanent Positions)	(3,478)	(3,459)	(907)	(-2,552)	
Unobligated Balance Lapsing	500	-	-	-	
Appropriation (Adjusted) ($000)	$133,903	$115,308	$45,271	-$70,037	
2. TRANSPORTATION AND PUBLIC UTILITIES					
a. Transportation & Travel Mgmt. ($000)	$5,554	$4,783	$6,791	+$2,008	Provides management assistance to civil executive agencies in the implementation of Government-wide transportation and traffic management policies and regulations. Net increase of $2,008 thousand consists of: increase of $265 thousand for GTR profile of all civilian agencies' travel costs; increase of $400 thousand for GBL profile of all civilian agencies' freight transportation costs; increase of $200 thousand for printing costs associated with the testing of Travel Management Centers; increase of $135 thousand for ADP costs associated with the Household Goods Routings System; decrease of $24 thousand and one FTE in pro-rated service direction costs; increase of $264 thousand and 9 FTE reprogrammed from service direction savings; increase of $495 thousand for restoration of unfunded FTE; increase of $207 thousand for the full-year cost of the FY 1982 pay increase; and an increase of $66 thousand for the increased cost of communications, printing, and other services.
(Total Compensable Work-years)	(157)	(152)	(160)	(+8)	

APPROPRIATION: PERSONAL PROPERTY

Provides for -- the direction and coordination of a world-wide supply system, establishment of requirements for commodities, and promoting efficient and effective supply, property management, and procurement support to Federal agencies; transportation and travel management, audit of all U.S. Government transportation bills, processing of transportation claims by and against the U.S. Government, operation and maintenance of motor equipment and public utilities, development and execution of the automotive procurement function of the Government; and, the management, procurement, and utilization of automatic data processing, telecommunications, and office information equipment and services.

Subactivities:	FY 1981	FY 1982	FY 1983	Change from FY 1982	Explanation
1. SUPPLY					
a. Supply ($000) (Total Compensable Work-years)	$91,811 (2,476)	$78,069 (2,299)	$25,738 (377)	-$52,331 (-1,922)	Provides direction and overall coordination for a national supply distribution system of wholesale and retail distribution facilities through which commercial-type commodities are received, stored and issued on a world-wide basis to Federal agencies. A decrease of $62,866 thousand is due to the inclusion of the direct operational costs of this program in the General Supply Fund in FY 1983, under proposed legislation. This is partially offset by an increase of $10,000 thousand for modernization and improvement of storage and handling functions at depot facilities, and pay costs of $535 thousand.
b. Contracts ($000) (Total Compensable Work-years)	$25,793 (809)	$23,381 (798)	$17,340 (476)	-$6,041 (-322)	Provides for the centralized procurement of commercial-type items and services required by Federal agencies and other authorized users of Federal Supply Service system. A decrease of $8,678 thousand is due to the inclusion of the direct operational costs of the tool, furniture and general products commodity centers in the General Supply Fund in FY 1983, under proposed legislation. This is partially offset by an increase of $1,997 thousand for transfer of the Business Service Center program to this account, and pay costs of $640 thousand.

Subactivities:	FY 1981	FY 1982	FY 1983	Change from FY 1982	Explanation
b. Motor Equipment ($000) (Total Compensable Work-years)	$2,069 (51)	$1,363 (38)	1,272 (32)	-$91 (-6)	Provides management assistance and guidance to Federal executive agencies in the operation of their motor vehicle fleets. Net decrease of $91 thousand consists of: decrease of $190 thousand and 6 FTE in pro-rated service direction costs; increase of $22 thousand for restoration of unfunded FTE; increase of $59 thousand for the full-year cost of the FY 1982 pay increase; and an increase of $18 thousand for the increased cost of communications, printing, and other services.
c. Transportation Audits ($000) (Total Compensable Work-years)	$6,772 (231)	$5,837 (216)	$6,647 (215)	+$810 (-1)	Provides for the centralized post audit of rate charges by the passenger and freight carriers for transportation services furnished for the account of the United States. Net increase of $810 thousand consists of: decrease of $36 thousand and 1 FTE in pro-rated service direction costs; increase of $518 thousand for restoration of unfunded FTE; increase of $261 thousand for the full-year cost of the FY 1982 pay increase; and an increase of $67 thousand for the increased cost of communications, printing, and other services.
d. Public Utilities ($000) (Total Compensable Work-years)	$812 (21)	$740 (21)	$882 (20)	+$142 (-1)	Provides nationwide leadership and program direction for public utilities management services (except communications) and regulatory intervention programs. Net increase of $142 thousand consists of: decrease of $4 thousand in pro-rated service direction costs with a corresponding reduction of 1 FTE; increase of $104 thousand for restoration of unfunded FTE; increase of $31 thousand for the full-year cost of the FY 1982 pay increase; and an increase of $11 thousand for the increased cost of communications, printing, and other services.

Subactivities:	FY 1981	FY 1982	FY 1983	Change from FY 1982	Explanation
e. Automotive Management ($000)	$2,403	$1,836	$2,125	+$289	Provides nationwide leadership for the development and execution of the automotive procurement function of the Government. Net increase of $289 thousand consists of: decrease of $10 thousand in pro-rated service direction costs; increase of $195 thousand for restoration of unfunded FTE; increase of $82 thousand for the full-year cost of the FY 1982 pay increase; and an increase of $22 thousand for the increased cost of communications, printing, and other services.
(Total Compensable Work-years)	(63)	(55)	(55)	(-)	
Total ($000)	$17,610	$14,559	$17,717	+$3,158	
(Total Compensable Work-years)	(523)	(482)	(482)	(-)	
(Permanent Positions)	(521)	(469)	(469)	(-)	
Unobligated Balance Lapsing	189	-	-	-	
Appropriation (Adjusted)	$17,799	$14,559	$17,717	+$3,158	
3. CONTRACT AUDIT PAYMENTS					
a. Contract Audit Payments (Total) ($000)	-	-	$1,080	+$1,080	The GSA has proposed revisions to 31 U.S.C. 244 which authorized GSA to use commercial audit firms to conduct all phases of the GSA transportation audit function. The legislation also authorizes commercial audit firms to be paid from receipts collected by GSA as a result of post-payment audits. The receipts will also be used to pay for other direct expenses relating to contracting for audit and audit-related activities. The $1,080 thousand for FY 1983 consists of $1,000 thousand for reimbursements to contractors and $80 thousand for other directly related expenses.
(Total Compensable Work-years)	(-)	(-)	(-)	(-)	
(Permanent Positions)	(-)	(-)	(-)	(-)	

Subactivities:	FY 1981	FY 1982	FY 1983	Change from FY 1982	Explanation
4. AUTOMATED DATA AND TELECOMMUNICATIONS					
a. Policy and Planning ($000) (Total Compensable Work-years)	$2,672 (60)	$2,851 (69)	$3,368 (69)	+$517 (-)	Provides for the development and coordination of operational policies, procedures, regulations, and publications governing the management, operation, and utilization of Government-wide ADP and telecommunications activities. Studies are made to determine the economic impact of ADP and telecommunications programs under development and programs of long-range research in the fields of a ADP and telecommunications. Provides advice and guidance to agencies, through Agency Liaison Officers (ALO), related to the technical, policy and regulatory aspects of ADP and telecommunications acquisition and application. Increase of $517 thousand consists of $120 thousand for full-year cost of FY 1982 pay increase, $107 thousand for increased SLUC payments and $290 thousand to permit continuation of programs at the FY 1982 level prior to the reductions taken under P.L. 97-92.
b. Federal Information Centers ($000) (Total Compensable Work-years)	- (-)	$2,131 (87)	$5,249 (183)	+$3,118 (+96)	Assists public in finding answers to their questions about the Federal Government. Serves as clearinghouse for inquiries either answering questions directly or referring the caller to the appropriate agency. The FIC's often research inquiries in order to pinpoint the correct source of assistance, thus relieving the inquirer of wasted time and frustration which comes from being referred from office to office. Increase $3,118 thousand consists of $3,067 thousand for full-year costs of transfer of functions to ADTS plus $51 thousand for pro-rated share of Service Direction.
c. Software Development ($000) (Total Compensable Work-years)	$295 (1)	$573 (1)	$577 (1)	+$4 (-)	The office is responsible for the improvement of service levels and the reduction to costs of software in the Government. Programs focus on the improvement of existing software, the transfer of software from one user to another, and the productivity and quality of new programs. Provides management and oversight for ADP Fund financed data processing centers, involved in software conversion, validation and exchange. Increase of $4 thousand to permit continuation of programs at the FY 1982 level prior to the reductions taken under P.L. 97-92.

Subactivities:	FY 1981	FY 1982	FY 1983	Change from FY 1982	Explanation
d. Office Information Systems ($000) (Total Compensable Work-years)	- (-)	$1,054 (18)	$2,172 (35)	+$1,118 (+17)	Conducts on-site inspections to assess compliance with the laws and regulations that govern the creation and use of records; provides on-site technical assistance, on request, to agencies; publishes handbooks related to information management practices and systems for the use of all Federal agencies; develops and teaches courses in information management; and controls the government-wide use of standard and optional forms to minimize duplication and ensure cost effectiveness. Increase of $1,118 thousand consists of $1,083 thousand for full-year costs of transfer of functions to ADTS plus $35 thousand for pro-rated share of Service Direction.
e. Computer Sciences and Technology ($000) (Total Compensable Work-years)	- (-)	- (-)	$7,190 (108)	+$7,190 (+108)	Provides for the establishment of Government-wide automated data processing (ADP) standards and provides scientific and technological advisory services associated with ADP and related systems. Increase of $7,190 thousand consists of $7,131 thousand for full-year costs of transfer of functions to ADTS plus $59 thousand for pro-rated share of Service Direction.
f. Procurement ($000) (Total Compensable Work-years)	$4,982 (119)	$4,176 (103)	$4,851 (95)	+$675 (-8)	Provides for the overall management, control, and coordination of Government-wide programs and activities relating to the procurement of ADP and telecommunications equipment, software, maintenance, and related supplies and services and the implementation of Government-wide ADP resources sharing programs. This activity also provides for the management of reimbursable ADP procurement programs financed through the ADP Fund and reimbursable telecommunications procurement programs financed through the Federal Telecommunications Fund. Increase of $675 thousand consists of increases of $189 thousand for full-year costs of FY 1982 pay increase, $113 thousand for increased SLUC payments, $34 thousand for the increased costs of communications, printing and other services, and $592 thousand to permit continuation of programs at the FY 1982 level prior to the reductions taken under P.L. 97-92, offset by decreases of $221

Subactivities:	FY 1981	FY 1982	FY 1983	Change from FY 1982	Explanation
					thousand for the termination of the Magnetic Surface Laboratory and $32 thousand for reallocation of prorated Service Direction costs.
g. Information Resources Management ($000) (Total Compensable Workyears)	$2,057 (10)	$2,020 (9)	$2,280 (9)	+$260 (-)	Provides management and control of the Federal Procurement Data Center which collects and disseminates Government-wide procurement data to Congress, the executive branch, and the private sector. Provides for the management and operation of the ADP Management Information System (ADP/MIS), and management of the Communications Management Information System (C/MIS). This activity is also responsible for the management of internal ADTS automated data systems to provide for the more efficient management of ADP and telecommunications programs and the ADP equipment redistribution programs. Increase of $260 thousand consists of $18 thousand for full-year costs of FY 1982 pay increase, $12 thousand for increased SLUC payments and $230 thousand to permit continuation of programs at the FY 1982 level prior to the reductions taken under P.L. 97-92.
h. Systems Engineering & Operations ($000) (Total Compensable Work-years)	$3,023 (72)	$1,797 (41)	$1,976 (41)	+$179 (-)	Provides for the overall management, control, and coordination of Government-wide programs and activities relating to the operation, maintenance, and utilization of telecommunications equipment and services including advanced planning for existing and future programs to meet Government-wide requirements. The activity provides for the management of reimbursable programs financed through the Federal Telecommunications Fund, including the design and engineering of networks and facilities for Federal civil agencies. Increase of $179 thousand consists of increases of $35 thousand for full-year costs of FY 1982 pay increase, $33 thousand for increased SLUC payments, $79 thousand for the increased costs of communications, printing and other services, and $145 thousand to permit continuation of programs at the FY 1982 level prior to the reductions taken under

Subactivities:	FY 1981	FY 1982	FY 1983	Change from FY 1982	Explanation
					P.L. 97-92, offset by a decrease of $113,000 for reallocation of pro-rated Service Direction costs.
Total ($000)	$13,029	$14,602	$27,663	+$13,061	
(Total Compensable Work-years)	(262)	(328)	(541)	(+213)	
(Permanent Positions)	(322)	(470)	(592)	(+122)	
Unobligated Balance Lapsing	371	-	-	-	
Appropriation (Adjusted)	$13,400	$14,602	$27,663	+$13,061	
TOTAL ($000)	$164,042	$144,469	$91,731	-$52,738	
(TOTAL COMPENSABLE WORK-YEARS)	(4,547)	(4,345)	(1,936)	(-2,409)	
(PERMANENT POSITIONS)	(4,321)	(4,398)	(1,968)	(-2,430)	
UNOBLIGATED BALANCE LAPSING	1,060	-	-	-	
APPROPRIATION (ADJUSTED)	$165,102	$144,469	$91,731	-$52,738	

FY 1983 BUDGET

APPROPRIATION: OPERATING EXPENSES, NATIONAL ARCHIVES AND RECORDS SERVICE

Provides for -- basic operations dealing with management of the Government's archives and records, operation of Presidential libraries, the review and declassification of documents, and oversight of the information security program implementing provisions of Executive Order 12065.

	FY 1981	FY 1982	FY 1983	Change from 1982	Explanation
1. Records Management & Centers (000) (Average employment)	$40,597 (1,262)	$35,351 (1,151)	$38,181 (1,134)	$+2,830 (-17)	Provides for the accession, storage, reference service and disposal of records through a nationwide system of records centers; and promotes improved records management. A net increase of $2,830 thousand is requested for FY 1983. Increases include $411 thousand for payment to the Federal Buildings Fund for space, $275 thousand for the recurring reimbursable payments to the Federal Buildings Fund; $843 thousand for the full year cost of the 1982 pay increase, and $2,680 to restore one-time FY 1982 reductions. These increases are offset by a decrease of $1,379 for the transfer of records management activities to the Automated Data and Telecommunications Service.
2. Archives and Related Services (000) (Average employment)	$39,567 (837)	$36,169 (790)	$44,723 (794)	$+8,554 (+4)	Provides for the servicing of permanently valuable historical records of the Federal Government; the publishing of U.S. Statutes, Constitutional amendments, Presidential documents and administrative regulations; and publishes and administers historical materials in Presidential libraries. A net increase of $8,554 thousand is requested for FY 1983. Increases are $1,172 thousand for printing of certain publications of the Office of the Federal Register (previously funded by GPO appropriation), $1,178 thousand for payment to the Federal Buildings Fund for space, $494 thousand for recurring reimbursable payments to the Federal Buildings Fund, $944 thousand for the full year cost of the FY 1982 pay increase and $4,766 thousand to restore one-time FY 1982 reductions.

		FY 1981	FY 1982	FY 1983	Change from 1982	Explanation
3.	National Historical Publications & Records Commission (000) (Average Employment)	$ 5,050 (22)	$ 1,454 (11)	$ 286 (7)	$-1,168 (-4)	Provides assistance to Federal and State governments and private non-profit institutions to collect, preserve, compile, and publish historical papers. There is a net decrease of $1,168 thousand for FY 1983. Program reductions of $181 thousand for administrative and reference services, $1,000 thousand for grants, $32 thousand for the carry forward of prior year funds, $2 thousand for payment to the Federal Buildings Fund for space and $2 thousand for recurring reimbursable costs are offset by an increase of $20 thousand for the full year cost of the FY 1982 pay increase and $29 thousand to restore one-time FY 1982 reductions.
4.	Records Declassification (000) (Average Employment)	$ 2,319 (102)	$ 1,633 (56)	$ 1,575 (56)	$ -58 (-)	Provides for the review and declassification of classified records which are or will be 20 years old in accordance with Executive Order 12065. There is a net decrease of $58 thousand for FY 1983. Decreases of $3 thousand for recurring reimbursable payments to the Federal Buildings Fund and a $300 thousand program decrease are offset by increases of $71 thousand for payment to the Federal Buildings Fund for space, $43 thousand for the full year cost of the FY 1982 pay raise and $131 thousand to restore one-time FY 1982 reductions.
5.	Information Security Oversight Office (000) (Average Employment)	$ 539 (14)	$ 531 (15)	$ 528 (15)	$ -3 (-)	Provides oversight for the information security program established by Executive Order 12065. There is a net decrease of $3 thousand for FY 1983 for program reductions.
	Total Obligations (000) (Permanent Positions) (Average Employment)	$88,072 (1,775) (2,237)	$75,138 (1,600) (2,023)	$85,293 (1,600) (2,006)	$+10,155 (-) (-17)	
	Financed from prior year unobligated balance	-335	-32	-	+32	
	Unobligated balance lapsing	1,004	-	-	-	
	Unobligated balance carried forward	32	-	-	-	
	Appropriation (adjusted)	$88,772	$75,106	$85,293	$+10,187	

APPROPRIATION: OPERATING EXPENSES, FEDERAL PROPERTY RESOURCES SERVICE

Provides for -- utilization and disposal of excess and surplus real and personal property, rehabilitation of personal property, acquisition, administration, and disposal of National Defense Stockpile inventories, and the administration and disposal of Defense Production Act inventory.

		FY 1981	FY 1982	FY 1983	Change from 1982	Explanation
1.	Stockpile Management ($000) (Average Employment)	$20,002 (212)	$17,998 (227)	$21,979 (227)	$+3,981 (-)	Provides for management of the national defense stockpile of strategic and critical materials required to keep the nation's mobilization base viable. The total increase of $3,981,000 is comprised of increases of $1,482,000 for standard level user charges; $271,000 for the full year cost of the 1982 pay increases; $418,000 for economic adjustment in the cost of goods and services; and $1,810,000 to restore one time FY 1982 reductions.
2.	Stockpile Transactions ($000) (Average Employment)	$ 2,996 (56)	$ 2,908 (53)	$ 3,234 (53)	$ +326 (-)	Provides for acquisition and disposal of strategic and critical stockpile materials. The total increase of $326,000 is comprised of $14,000 for economic adjustments in the cost of goods and services; $74,000 for the full year cost of the 1982 pay increase; and $240,000 to restore one time FY 1982 reductions; offset by a decrease of $2,000 for standard level user charges.
3.	Real Property ($000) (Average Employment)	$6,572 (154)	$ 4,860 (129)	$6,676 (129)	$+1,816 (-)	Provides for maximum utilization of real property by Federal agencies, and the transfer among agencies of excess real property. The total increase of $1,816,000 is comprised of increases of $132,000 for economic adjustments in the cost of goods and services; $117,000 in standard level user charges; $190,000 for the full year cost of the 1982 pay increase; and $1,377,000 to restore one time FY 1982 reductions.
4.	Personal Property ($000) (Average Employment)	$15,679 (461)	$14,225 (397)	$15,077 (397)	$ +852 (-)	Provides for management and operation of the Government-wide excess Federal personal property program including the utilization, donation, rehabilitation and sale of property. The total increase of $852,000 is comprised of increases of $501,000 for the full year cost of the 1982 pay increase; $132,000 for economic adjustments in the cost of goods and services; $262,000 to restore one

	FY 1981	FY 1982	FY 1983	Change from 1982	Explanation
					time FY 1982 reductions; and is offset by a decrease of $43,000 in standard level user charges.
Total Obligations ($000)	$45,249	$39,991	$46,966	$+6,975	
(Permanent Positions)	(874)	(806)	(806)	(-)	
(Average Employment)	(883)	(806)	(806)	(-)	
Unobligated Balance Lapsing	827	-	-	-	
Budget Authority	$46,076	$39,991	$46,966	$+6,975	

APPROPRIATION: NATIONAL DEFENSE STOCKPILE TRANSACTION FUND

Provides for -- financing of the acquisition of strategic and critical meterials and related transportation costs out of receipts from disposal sales of excess stockpile materials.

	FY 1981	FY 1982	FY 1983	Change from 1982	Explanation
1. Acquisition ($000)	$70,200	$72,058	$108,000	$+35,942	Provides for acquisition of strategic and critical materials derived from receipts covered into the fund. The National Defense Stockpile Transaction Fund was established by the Strategic and Critical Materials Act (PL 96-41) approved July 30, 1979, as amended by the Omnibus Reconciliation Act of 1981 (PL 97-35). Collections from stockpile sales covered in the fund are available until appropriated for acquisitions. If provided in appropriation acts, amounts in the fund shall remain available until expended. Related operating expenses are provided under the appropriation Federal Property Resources Service, operating expenses.
2. Transportation and Handling ($000)	7,800	$ 8,000	$ 12,000	$ +4,000	
(Permanent Positions)	(0)	(0)	(0)	(-)	
(Average Employment)	(0)	(0)	(0)	(-)	
Total Obligations ($000)	$78,000	$80,058	$120,000	$+39,942	
Financed from prior year unobligated balance	-	$-22,391	-	$+22,391	
Unobligated balance carried forward	$22,391	-	-	-	
Appropriation	$100,391	$57,667	$120,000	$+62,333	
Current (special fund)	(100,000)	(57,600)	(120,000)	(62,400)	
Permanent (indefinite, special fund)	(391)	(67)	-	(-67)	

APPROPRIATION: SALARIES AND EXPENSES, GENERAL MANAGEMENT AND ADMINISTRATION
($ in 000)

Provides for -- policy direction and coordination of all GSA programs by the Administrator, his Deputy, 11 Regional Administrators; Congressional and External Affairs; agencywide acquisition policy, planning and coordination; and financing of administrative operations and staff support services on a centralized and integrated basis for all GSA programs.

	FY 1981	FY 1982	FY 1983	Change From 1982	
1. Executive Direction (Total Compensable Work-Years)	$ 6,665 (122)	$ 5,462 (135)	$ 6,718 (139)	+$1,256 (+4)	Of the $1,256,000 increase, $327,000 is for the Customer Relations program previously funded in Public Affairs, $783,000 is for full-year cost of the October 1981 payraise (including increase in Pay Cap) as well as full-year costing of employees furloughed in FY 1982, and $146,000 is for increased costs of space (SLUC).
2. Organization and Personnel (Total Compensable Work-Years)	$20,793 (653)	$16,694 (558)	$21,049 (558)	+$4,355 (-)	Of the $4,355,000 increase, $3,028,000 is for full-year cost of the October 1981 payraise (including increase in Pay Cap) and return to full-year costing of employees furloughed in FY 1982, $951,000 for increased space costs (SLUC), and $376,000 for inflationary increases in non-personnel, non-SLUC costs.
3. Office of Oversight (Total Compensable Work-Years)	$ 8,025 (312)	$ 8,242 (305)	$10,011 (305)	+$1,769 (-)	Of the $1,769,000 increase, $1,406,000 is for salaries and benefits due to inclusion of full-year cost of October, 1981 payraise (including increase in Pay Cap) and return to full-year costing of employees furloughed in FY 1982, $303,000 is for rate increases for SLUC, $60,000 is for rate increases for telecommunications.
4. Budget, Accounting and ADP (Total Compensable Work-Years)	$68,201 (1,846)	$66,395 (1,727)	$76,250 (1,704)	+$9,855 (-23)	The increase of $9,855,000 provides $4,867,000 to support GSA's long-range ADP plan, specifically to provide for systems project contracts initially planned in FY 1982, $2,194,000 for full-year cost of the October 1981 payraise and the increase in the pay cap, $2,794,000 increased space costs (SLUC).

	FY 1981	FY 1982	FY 1983	Change From 1982	
5. Board of Contract Appeals	$ 1,630	$ 1,388	$ 1,733	+ 345	Of the $345,000 increase, $216,000 is for full-year cost of the October 1981 payraise, cost of increase in the Pay cap, and other increases in personnel costs such as periodic step increases and promotions and $129,000 for inflationary increases in non-personnel non-SLUC costs.
(Total Compensable Work-Years)	(35)	(32)	(32)	(-)	
6. Legal Services	$ 6,699	$ 6,099	$ 7,060	+$ 961	Of the $961,000 increase, $836,000 is for salaries and benefits due to inclusion of full-year cost of the October 1981 payraise (including increase in Pay Cap) and return to full-year costing of employees furloughed in FY 1982, $39,000 net increase in SLUC and $86,000 for inflation applied to all non-personnel and non-SLUC costs.
(Total Compensable Work-Years)	(157)	(156)	(156)	(-)	
7. Acquisition Policy	$ 2,489	$ 3,668	$ 4,483	+$ 815	Of the $815,000 increase, $110,000 for full-year cost of the October, 1981 payraise and full-year funding for employees furloughed in 1982, $468,000 provides administrative support to the Executive Committee maintaining Federal Acquisition Regulations $252,000 for increased space costs and $401,000 for inflationary increases in non-personnel non-SLUC costs offset by a reduction in printing cost of $416,000.
(Total Compensable Work-Years	(58)	(56)	(56)	(-)	
8. Public Affairs	$ 7,660	$ 3,728	-0-	-$3,728	The $3,728,000 decrease reflects the transfer of the Business Service Centers to FSS and Federal Information Centers to ADTS midway in FY 1982 and Customer Relations to Executive Direction within the General Management and Administration appropriation.
(Total Compensable Work-Years)	(293)	(136)	(-)	(-136)	
Total	$122,162	$111,676	$127,304	$15,628	
(Permanent Positions)	(3,179)	(2,944)	(2,944)	(-)	
(Total Compensable Work-Years)	(3,476)	(3,105)	(2,950)	(-155)	

APPROPRIATION: ALLOWANCES AND OFFICE STAFF FOR FORMER PRESIDENTS
($ in 000)

Provides for: pensions and the cost of postal franking privileges for widows of former Presidents Truman and Johnson. This appropriation also provides for the pensions, office staffs, and related expenses for former Presidents.

	FY 1981	FY 1982	FY 1983	Change From 1982	Explanation
1. Pension and Allowances for widows of former Presidents	$ 42	$ 45	$ 45	-	No change.
2. Pensions for former Presidents	$188	$ 210	$ 210	-	No change.
3. Office staff for former Presidents	$488	$ 807	$ 851	$+44	The $44,000 increase is for cost increases for rent, communications and utilities, printing, other services and supplies.
Total	$718	$1,062	$1,106	$+44	

APPROPRIATION: OFFICE OF INSPECTOR GENERAL
($ in 000)

Provides for: agencywide audit and investigative functions to identify and correct management and administrative deficiencies within GSA which create real or potential conditions for fraud, corruption, and mismanagement.

	FY 1981	FY 1982	FY 1983	Change From 1982
Office of Inspector General	$19,665	$17,006	$19,764	$+2,758
(Permanent Positions)	(518)	(509)	(499)	(-10)
(Total Compensable Work-Years)	(530)	(511)	(501)	(-10)

Explanation

Of the net increase of $2,758,000, $2,015,000 will provide partial funding restoration. Included is the following:

1. Personnel Compensation	$1,480,000
2. Travel Costs	$ 255,000
3. Motor Pool	$ 35,000
4. Space Costs (SLUC)	$ 143,000
5. Communications, Utilities, and Other Rent	$ 102,000

Also an increase of $743,000 is for the full-year cost of the FY 1982 pay increase.

NATIONAL ARCHIVES AND RECORDS SERVICE

Mr. CARMEN. I would like to briefly discuss a few issues that I understand are of particular interest to this committee.

The National Archives and Records Service is one of the most important programs in GSA. The preservation and dissemination of our documented history is a vital part of our American heritage.

We have looked at ways to insure that the Archives continues to carry out its major responsibilities within the resources available. We have been able to provide additional funds to the Archives and avoid a furlough by removing the Archives building and the Presidential libraries from standard level user charge—SLUC—payments. Those buildings should never have been included in the SLUC program because they are unique in their origins and use. Priority is being given to preservation work, environmental improvements, and increasing public sector involvement in and support for the Archives' activities. We see the private sector carrying on many of the publication projects formerly funded by the grant program. For example, the Founding Fathers project has received a $1.5 million, 5-year grant from the Andrew W. Mellon Foundation and we anticipate that other foundations will support other projects.

GSA has received a great deal of mail from people concerned about the impact of budget reductions on the Archives. I understand that this committee and its members also have been contacted by many of these same people. I am glad to see the degree of interest there is in the Archives and hope these people will join with us in continuing the important work that must be done. We believe that the continued relationship between GSA and the Archives will benefit both parties and the American public.

STRATEGIC STOCKPILE

With regard to our strategic stockpile, we are looking at ways to achieve our goals that involve other than direct cash payments, such as barter of agricultural commodities and exchange of excess materials. We have paid close attention to the concerns raised in the past about our maintaining and safeguarding items in the stockpile and will take whatever actions are necessary in this regard.

In keeping with the President's initiative to dispose of unneeded Federal property, we expect to realize $1.3 billion from the sale of such property in fiscal year 1983. Funds to support this initiative should be appropriated from the receipts of the sales.

In conclusion, the fiscal year 1983 budget request constitutes our assessment of the resources needed to accomplish GSA's mission. We support it fully, and will continue to pursue aggressively those program, organizational, and management initiatives that will improve service delivery at less cost to the taxpayer. We took a number of steps in that direction in 1982. With your support, and this budget we can go further toward that end in the coming year.

Thank you.

Senator ABDNOR. Well, thank you, Mr. Carmen, for that very excellent report.

As I said in the beginning, I appreciate the fine job that you are doing down there at GSA. Incidentally, your written statement on the highlights summary that you were speaking of, will be made a part of the record.

Mr. CARMEN. Thank you.

STANDARD LEVEL USER CHARGES

Senator ABDNOR. What percent of your budget goes to—I mean most agencies—what percentage goes out to rents, office space? Is it kind of a common figure throughout the agencies, or does it vary a lot?

Mr. FONTAINE. Approximately $75 million goes for SLUC for all of GSA.

Senator ABDNOR. Well, that would be what percent?

Mr. CARMEN. About 15 percent.

Senator ABDNOR. Is that about what they run in most agencies? Do you see quite a difference?

Mr. FONTAINE. I think ours is typical of most agencies.

Mr. CARMEN. Senator, if the question deals with the amount of rent which agencies pay—or which we pay to the Federal Government, our feeling is that—a true economic value should be placed on space, and that agencies should recognize that every foot of space they use has a cost involved.

We are moving down the road to make sure that the rent, or the SLUC, truly reflects the cost of space. We feel very strongly that all Federal agencies should be assessed that kind of rent.

What the Federal buildings fund amounts to in the end, and the amount of money which we take in, and how that is disposed of, is a matter for Congress. I believe that everything we do in Government should be valued, as it is in the private sector; I think it is a very important premise.

Senator ABDNOR. This $2 billion in rental authority takes care of the next fiscal year?

Mr. CARMEN. That would be our income on the space which we have under our control.

INDUSTRIAL FUNDING

Senator ABDNOR. What is the industrial funding? I was interested in making that changeover, the buy-out for each function. How does that work?

Mr. CARMEN. In the past, we have operated the supply system using appropriated funds. For example, if we were given $115 million to run the Federal supply system, it would not make any difference whether we did 1 billion dollars' worth of business or 10 billion dollars' worth of business. The appropriated funds were fixed.

We would rather have a system that would reflect the cost of doing business, so that if our business decreases, the funds which would be available to run the business would be less, and if our work accelerated, our income would go up. About 70 percent of our Federal supply work is defense-related. I think it would give the Government a true picture of the cost of the national supply system.

Senator ABDNOR. You can do that within your own agency?

Mr. CARMEN. That is correct, but legislation is required.

STOCKPILE STORAGE

Senator ABDNOR. Well, how many sites do you use to store the various stockpile commodities in the national defense stockpile?

Mr. CARMEN. One hundred and sixteen.

Senator ABDNOR. How much do we have to pay for the storage costs?

Mr. CARMEN. Roy, would you——

Mr. MARKON. I am Roy Markon. Our total SLUC and rental bill for storage costs is approximately $10 million per year.

Senator ABDNOR. Does not this private sector participation leave you open to conflict-of-interest charges, inasmuch as you may be paying for storage of items for those who would have an interest in it?

Mr. MARKON. I am not sure I understand the question.

Senator ABDNOR. There is private participation in this stockpile. The question was, does not the private sector participation leave you open to conflict-of-interest charges, inasmuch as you may be paying for storage of items for those who have an interest in them? Or do you not have any choice?

Mr. MARKON. Not really, Mr. Chairman. We store items strategically, which means that you store them closest to the point of processing. Many times the land that is available for this purpose is owned by the processor. The fact that we rent land from him does not create a conflict of interest at all. Most of those rents are for 20 years, and they are for nominal consideration.

Senator ABDNOR. In your capacity, do you visit the storage sites regularly?

Mr. MARKON. Yes, sir, as frequently as I can.

Senator ABDNOR. Do you keep a close physical count on the $12 billion that you have in the national stockpile?

Mr. MARKON. Well, we have people at most of the stockpile sites, not all of them, but the major ones, and they have continuing inspections. All sites are inspected at least twice a year.

Senator ABDNOR. And they are audited from time to time?

Mr. MARKON. Yes.

Senator ABDNOR. By private auditors?

Mr. MARKON. Most of our audits are from either GAO or our Inspector General.

Senator ABDNOR. Thank you.

As you are probably aware, Mr. Carmen, GSA internal auditors discovered that your internal procedures for safeguarding items in the strategic stockpiles have been seriously deficient. This was a problem that, according to the auditors, required top management attention.

What kind of attention has it received from the top?

Mr. CARMEN. I understand at that time there were seven major concerns that the audit presented to us, and we paid close attention to all of those concerns, and will take, and have taken the actions that are necessary.

Senator ABDNOR. One of those was opium. I think that Senator Biden, our colleague, for instance, is that well under control now——

Mr. MARKON. Yes; there was a separate audit on the storage of opium, and all the issues raised by the auditors were adequately answered. The opium is stored in places as secure as Fort Knox.

JAMAICAN BAUXITE

Senator ABDNOR. Just on another subject, you set up an approved criteria for transportation of the Jamaican bauxite for the national defense stockpile so that foreign-flag carriers could only be used, instead of the U.S.-flag carriers. Who is storing the bauxite?

Mr. MARKON. The bauxite is being stored in Gregory, Tex., on an existing stockpile site, which already contains some Jamaican bauxite. We are just adding to the pile. The closest port to that particular pile is in Gregory. It is owned by the Reynolds, and the ships should come into that port. If they are able to come into that port and deliver the bauxite to our pile, we will use their ships.

Senator ABDNOR. You could supply—how much does the Government pay in storage costs——

Mr. MARKON. The lease is a nominal rental lease. Very small storage cost.

Senator ABDNOR. OK. Thank you.

Is it more than one firm, or more?

Mr. MARKON. There are several storage sites for bauxite, but the one that you are asking about is just one lease, and it is one part of several sites.

Senator ABDNOR. One of the firms that owns the vessel is transporting the material also?

Mr. MARKON. The tender was made in the early part of February, and the response from the tender indicated that there were no American bottoms available, at fair and reasonable prices, to participate in this project.

Senator ABDNOR. Well, the storage costs, and the vessels, are there no connection between the two?

Mr. MARKON. No, sir.

Senator ABDNOR. I understand that GSA is acting as the agent for Jamaica in carrying out the sale of the exchange agreement for bauxite; is that right?

Mr. MARKON. That is right, sir.

Senator ABDNOR. This is permitted under your Stockpiling Act?

Mr. MARKON. Yes.

Senator ABDNOR. GAO is in agreement with that?

Mr. MARKON. GAO has it under consideration at the present time. I have had some preliminary discussions with GAO, and I have no indications that they will not support it.

Senator ABDNOR. Fine.

NATIONAL ARCHIVES BUILDING AND PRESIDENTIAL LIBRARIES

We received a letter from you, Mr. Carmen, advising us of the plans to remove the National Archives Building from standard level user charges. I guess this will cover some statements to the Federal building fund. Instead, the National Archives and the Record Service would reimburse the Federal building fund on the basis of actual cost.

We understand that the complete program costs approximately $5 million in savings to other programs; is that correct?

Mr. CARMEN. That is correct.

Senator ABDNOR. How are you coming at that?

Mr. CARMEN. Well, we think we have pretty well accomplished that, the savings were driven by the budget, at least the trends that we had, but even without the budget constraints, the Archives should not have been in the category that it was in. To us it is a unique building, much like a museum, or a library-type building, and it fell under a different category.

We think this system that we now come under will not only save them the money that they paid for SLUC, but also put their repairs and alterations on a more effective and orderly basis.

Senator ABDNOR. Is that—will we see the impact of that in 1982?

Mr. CARMEN. Yes.

PRESERVATION

Senator ABDNOR. Will the savings go on other preservation activities?

Mr. CARMEN. Yes; I believe they already are.

Dr. WARNER. I would be glad to comment, Mr. Chairman.

I am Robert Warner, the Archivist of the United States.

One of the real benefits from this saving is to address some of our preservation needs. This activity, which we all agree is very important, will continue at a more rapid rate than in the past.

Senator ABDNOR. Fine.

Well, Mr. Carmen, you said in the beginning, I suppose we hear from the same people that you hear from, there has been a great concern about the need for the improved and expanded program of preservation of the Nation's historic records. Observers had viewed as alarming the level of NARS' efforts in preservation.

Now, citing that only a very small percentage of the NARS budget goes toward this important work, would you comment on these assertions, and specifically state what your achievements have been in these areas? What your short-term plans are, and what could be accomplished by the year end 1983?

Mr. CARMEN. We think it is a proper duty of the Archivist of the United States to set the priorities in the way his budget is expended.

But I would say in dealing with that, that preservation has gone from about $1 million, I believe annually, in 1978, to something in the neighborhood of $4 million.

Senator ABDNOR. How much?

Mr. CARMEN. Four million dollars today in the current budget, and there is a great deal of attention being put to that detail, not only in terms of day to day activities, but in the search for better technology and better methods to speed up the process.

Dr. WARNER. I think the Administrator has very ably outlined the activities.

I might give you a few specific examples to illustrate how some of the preservation activities are being carried out. For example, in one very important group, Indian treaties, from the western part of the United States, your part of the country, some 7,700 sheets of these have been deacidified and prepared and encapsulated.

Another important group are the papers of the Continental Congress. Almost 100,000 sheets of these have been deacidified—that is taking the acid out of the papers, which harms them—and then encapsulated, if they needed it to preserve their long-term usefulness.

There are many others. We are getting a careful monitoring of the environmental controls of the building, to insure adequate preservation. Our microfilm funds for preservation have increased, so that we can microfilm a lot of the most precious documents, so that they will not be subject to wear and tear.

We are working out a joint project to look at the whole system of mass deacidification of records. There is a joint project with the Library of Congress. There are lots of things going on.

ENVIRONMENTAL CONDITIONS

Senator ABDNOR. Well, you just mentioned the environmental controls and conditions.

Dr. WARNER. Yes.

Senator ABDNOR. Is that improving, too, or was it as bad as some of the reports?

Dr. WARNER. We have to remember that the National Archives Building is 50 years old, and a very complicated building, and there is no question about it, it has environmental problems.

However, we did install, about 1½ years ago, a monitoring system, to look at the environmental controls in that building, and we are still finetuning that system. It is making improvements, but we are going to have to continue to look at that problem. There is no doubt about that. We will make our assessments and take action as we move along, if we find that we still have continued, unresolved problems, so that the documents will be preserved.

Senator ABDNOR. Very much receiving your attention, it is obvious.

Dr. WARNER. It is very important.

NATIONAL HISTORICAL PUBLICATIONS AND RECORDS COMMISSION

Senator ABDNOR. In this committee's report on your fiscal 1982 appropriations bill, we recommended additional resources over the administration's budget request, and earmarked up to $3 million in the bill in order to continue the National Historical Publications and Records Commission grants program.

Given the fiscal year 1983, there is no budget request from the administration for this program. Is there a good reason for it, do you know?

Dr. WARNER. I would be glad to comment on that.

In this year, fiscal 1982, we have been given approval to expend $1 million in grants. About half of that amount has already been allotted. We will continue to allocate the remaining funds.

It is true in 1983, that there are no grant funds requested, however, the National Historical Publications and Records Commission—NHPRC—does continue, and does have an active role. One of the important things it is doing is to bring together related groups of projects, such as the Founding Fathers project, and as the Administrator has already testified, to seek out private funds. They have had some real success in that area. For example, a $1.5 million, 5-year grant has been provided by the Mellon Foundation. We are also looking to other private foundations. We hope that in this way, the grant fund activities can be maintained.

For many years NHPRC did not have grant funds.

Senator ABDNOR. We have some great interest, I guess, in the overall Appropriations Committee on this. I am sure we are going to hear it again.

Can we assure some of those people that the historical publications and the records program is going to continue on without contribution——

Dr. WARNER. We will give them assurances that the Commission itself will continue. It is a program that has had considerable impact in the States, and that is why it has received a lot of attention.

Senator ABDNOR. Well, just to make a projection, do you think you are going to receive enough outside funds to carry on what you have been doing?

Dr. WARNER. We have a good start, as I say, $1.5 million in this first activity. We will be addressing this very vigorously, and we will see how that situation develops. We will monitor it very closely.

I know that the Administrator is interested, and I am also interested in seeing that that happens.

Senator ABDNOR. I am sure it will be a likely subject in the overall committee, as far as getting as much information as we can.

INDEPENDENT NATIONAL ARCHIVES

Last fall the Subcommittee on Civil Service, Post Office, and General Services of the Senate Committee on Governmental Affairs held hearings on S. 1421, which you are probably familiar with, that was a bill to establish an independent National Archives. Earlier this year the House Subcommittee on Government Information and Individual Rights, Committee on Government Operations held public hearings in which witnesses from a panel of Archives users and panel representatives of the National Historic Archival Organizations testified, and many people believe that these important NARS' functions would receive better attention if NARS was an independent entity, such as the Smithsonian Institution or the Library of Congress.

Now that you have been there for a year, Mr. Carmen, and had an opportunity to evaluate this situation, what are your views on these recommendations?

Mr. CARMEN. I am sure, or at least feel sure, that the best interests of the Archives and the American people can be best served by the Archives remaining part of GSA.

More importantly, though, I recognize that there is a difference of opinion by people who are well meaning on both sides. The most important thing we can all do is to function on behalf of the Archives, and to make it as substantial and as important an organization as we can—no matter where it resides, and right now it resides under GSA.

NARS ORGANIZATION

Senator ABDNOR. Do you have any organizational changes that you plan?

Mr. CARMEN. We have made, and will make in the future, those organizational changes in NARS which we believe will enable the Archives to operate more efficiently and effectively. To date, the only change has been to transfer the Records and Information Management Office to ADTS, to consolidate and strengthen our efforts in this area.

NATIONAL ARCHIVES TRUST FUND

Senator ABDNOR. Well, for a number of years we have had reports from the GAO and OPM and others that there are serious and widespread problems in the NARS trust fund. This fund receives, holds, and disburses the money from the sale of items and publications, souvenirs, and reproductions of records, and so forth.

Which steps have been taken to prevent further abuses? Are these programs now cleared up?

Mr. CARMEN. We have been working on the trust fund problems, and I think we have come a long way down that road. We have a full-time secretary in place, we have a new accounting system, and it is up and operating; and we have sent a proposal to OPM to convert most employees to competitive status.

Like any fund, we are watching it, and we hope that we have solved the problems of the past, and will catch any problems that might appear in the future.

REAL PROPERTY DISPOSALS

Senator ABDNOR. Well, you mentioned this in your statement. The administration recently announced an initiative to improve Federal asset management, to dispose of unneeded Federal property.

What extent do you plan to dispose of unneeded real property in the fiscal year 1983? Could you give us a figure there?

Mr. CARMEN. Our goals are, I think, $1.3 billion for fiscal year 1983, and we hope to finance that out of the sales which we conduct. That is the course we would be pursuing.

Senator ABDNOR. The budget request does not have to be changed for that program?

Mr. FONTAINE. There will be an amendment coming up shortly from OMB for fiscal year 1983.

Mr. EARLY. This would permit us to use some of the proceeds to help generate the sale and to provide a small amount for overhead expenses.

Senator ABDNOR. I see. Part of the budget figures, the total amount, that would not change?

Mr. CARMEN. There would be a small increase to pay for the increased administrative costs.

STOCKPILE GOALS

Senator ABDNOR. Your request for fiscal year 1983 is for $120 million for acquisition. What can you realistically do to achieve stockpile goals in the foreseeable future, without huge amounts of Federal Government outlay?

Mr. CARMEN. If this is in relationship to the report, I think it is stated that our overall goals were in the area of $13 billion. We will just be proceeding along the road that is required of us to proceed within the budget limitations that are appropriated for that purpose. That is the goal I think we would all like to see obtained, but we will all be working within the limits of our resources.

SENIOR EXECUTIVE RELOCATIONS

Senator ABDNOR. I know you touched on this, Mr. Carmen. I will merely ask you again.

There have been some press articles recently that describe maybe, you could even say attack, transfer of something like 18 to 20 senior executives to new duty stations around the country, and the implications were that these relocations were really banishments, and unfair.

I think that given the story about a husband and a wife being sent to different cities, frankly, I am sure there is a lot more than this to the story, and I would appreciate it if you would let the committee know what the actual facts of the matter are.

I know you touched on this in your statement, but would you care to elaborate on it?

Mr. CARMEN. Well, we would like the committee to understand that we think we have had a fair amount of understanding for our mission, for our employees, and for the taxpayers.

In November 1980 this agency had a full complement of full-time and part-time people of 37,000 people. Today we are in the neighborhood of 31,000 people, which is a reduction of over 6,000. Of that 6,000, only 160 people were involuntarily separated from the agency. That is a record that I am proud of, the agency is proud of, and I think the private sector would find a remarkable achievement.

At the same time, we have taken, or will be taking, in fiscal year 1983, a reduction of better than $50 million from our fiscal year 1981 appropriated budget, without even including an inflation factor. We have managed to do that, and have recently announced to all our employees that we will hit those figures and those items which I have mentioned, and will not have to furlough any of our people in the agency in fiscal year 1982.

This is, I think, an achievement that shows a great understanding, great compassion, and great feeling for the employees that we have at the agency. The fact that we have now transferred 17 senior people, of which a few have perhaps registered a complaint, I do not think is a significant issue. Most of these people are making in the areas of $55,000 to $60,000 a year, and I suggest to you, Mr. Chairman, that there are many, many Americans that would take a transfer for that kind of income.

FEDERAL VEHICLE FLEET

Senator ABDNOR. We received a report yesterday from you. We are wondering that if the size of the Federal fleet was cut 15, 20 percent, would that be a harmful cut, or could you get along with that?

Mr. CARMEN. Al, would you like to deal with that?

Before he starts, I might tell you that we are constantly studying our fleet, and are working all the time to reduce the size and cost of that fleet. Mr. Beres is our Commissioner of the Transportation and Public Utilities Service. He is really one of our bright spots in improving the management of the Federal fleet.

Mr. BERES. Thank you.

I am Al Beres, Commissioner of the Transportation and Public Utilities Service.

In our efforts to reduce the total cost of providing vehicle support to all of the Federal agencies, there is more involved than the provision of the support through Government-owned vehicles. It also involves the use of long-term leases, the rental of vehicles from commercial firms, and the use of privately-owned vehicles.

Within this broad context of all the sources of vehicle support that agencies receive, we find that the interagency motor pool system, and particularly Government ownership of the vehicles in our fleet, is the least costly of the alternatives available.

We have to be very judicious in examining each location, and each particular function, to determine what is the most cost effective way of providing this support.

To get directly to the answer to your question, I do not feel that it is appropriate at this time to say that a 15- to 20-percent reduction in Government-owned vehicles would lead to a reduction in the Government's costs.

Senator ABDNOR. Could I ask you one other question about that?

How long do you keep those cars for? So many miles?

Mr. BERES. For passenger vehicles, the minimum replacement standard is 60,000 miles or 6 years, whichever comes first.

Senator ABDNOR. Is that set in concrete, or is that some decision, do you set that?

Mr. BERES. Yes, sir; that is the minimum standard for passenger vehicles which is published in the Federal property management regulation.

Senator ABDNOR. I would assume there are Members of Congress that you hear from occasionally, about relaxing that.

Mr. BERES. If the vehicles are in good condition, we will continue them in operation. Those are management decisions that are made on a continuous basis.

Senator ABDNOR. Now, there are a lot of cars that go further than 60,000. I guess there are arguments on all sides about whether that is the best time to trade them off or not. Do those go on auction?

Mr. BERES. Yes, sir; we do dispose of our vehicles by auction.

Senator ABDNOR. Well, the last question——

Mr. CARMEN. Senator, one more thing on that question.

We are looking at the numbers and statistics that are involved in aging our fleet to determine whether we should run them a little longer or not. Most of us have gone through a personal process over the past few years, in which our own cars have perhaps not been traded as rapidly as we used to, when economic conditions were different.

Mr. Beres is in the process of looking into that aging situation, to see if it would lower our costs, if the standard were other than 6 years and 60,000 miles.

ADDITIONAL COMMITTEE QUESTIONS

Senator ABDNOR. There has been some big changes in how we handle automobiles over the last few years. I think many, many people are driving them longer. I have some questions for the record that I would like to have answered.

[The following questions were not asked at the hearing but were submitted to the Department for response subsequent to the hearing:]

QUESTIONS SUBMITTED BY SENATOR JAMES ABDNOR

Question. On April 23, 1982, GSA issued an "invitation to bid" (Solicitation No. TTEV-TI-020-A-82) which solicited bids for the transportation of Government employees by air.

We notice that one of the bus companies is advertising "the lowest fare anywhere" in which it claims it will beat the price of any other commercial passenger carrier whether it be an airline, AMTRAK or other bus company. Bus companies in general tend to have fares lower than other modes of transportation. Can bus companies participate under the solicitation to bid that you issued on April 23?

Answer. No; the solicitation is for air carriers only.

Question. Can't the Government save considerable amounts of travel money particularly on short-haul trips where often the air fares are fairly high today?

Answer. Each travel segment would have to be evaluated in terms of (1) availability of service; (2) consideration for lost productive time involved in use of slower mode; and (3) greater expenditures on per diem or subsistence expense reimbursement if a slower mode causes the traveler to stay overnight when air would allow single day travel. Basically, we can save money anytime we use a lower fare mode if all other factors are equal.

Question. Wouldn't it make sense to allow the bus companies to bid especially in the short-haul markets?

Answer. It is only in very dense usage short-haul markets that we solicit bids from the airlines. Unless it is such a route which creates competition for business, the bus fares typically are less than the air fares. Thus, we have seldom solicited discount air fare contracts on the short-haul markets where buses would be advantageous. Also, there is nothing precluding bus companies from offering Government (GSA) a special tender for reduced fare service under section 1-721 of the Interstate Commerce Act. There really is no need for formal solicitation as with air, although we may do so as a separate action just to clarify that we are not discriminating against bus travel. We do recognize, however, that it will be extremely difficult to force Federal travelers to use buses as a mandated mode essentially in competition with POV or GOV usage or, for that matter, AMTRAK. Commercial bus travel on official business constitutes 1.28 percent of the total, as compared to 37.4 percent air and 1.18 percent rail, with the balance performed on Government-owned air, auto, and private auto.

Question. Can you tell us what you are going to do about this situation?

Answer. We will accumulate information from agencies and carriers on these short-haul markets much as we did on air. We would have to analyze the results and see where it makes sense to use a bus tender or contract.

TRANSFERRING RESOURCES

Senator ABDNOR. Mr. Carmen, would you just care to comment on the article that was in the paper, I am sure GSA—legally transferring funds. You very clearly stated the situation in the paper, but is there anything you would like to say for the record on that?

Mr. CARMEN. For the record, we are proud that we have acted as we said we would when we first took our assignments. As we uncover things that do not look quite right to us, we move ahead to change them, and to correct them. This is a process that has been going on for some 18 years, and had some substance in legal decisions and instructions that go back some 40 years.

Upon discovering this process, I asked our IG, Joe Sickon, to join with me to see if it was improper, and if so, to correct it. I can assure you that our feeling is that it was not a good system, and that it should be corrected. We have taken steps to correct it, and feel very strongly that when fiscal year 1983 starts, the new system will be in place.

I might add, in dealing with our whole approach to GSA, and probably for all of Government, the accumulation of information and the system process needs a complete overhaul and a new look.

I do not feel comfortable at all that the systems and the methods that we have to assure accountability are in place at GSA. That is a long-term situation and certainly in the first year you could not even hope to approach the corrections in that way; but, if I last longer than the average Administrator does, we will get into that.

The question on the transfers of people that came up earlier really dealt with a larger question of GSA reorganization and where our people should be. We feel very strongly in the central office that we should have our effective people, and our organization out in the regions where they could get the job done.

In my own case of the SES' which I have brought into Government, nine of them are out in the regions, and six of them are in the central office.

In other words, better than half of those appointees are in the regions where they belong. It is my hope in the long term, or even in the short term, to make our distribution of SES' more proportional to the work that they have to do.

When I arrived at the agency, something better than 80 percent of the senior executive service was located in the Washington, D.C. area. I think a fair portion would be 50–50, and maybe even a little beyond that.

Senator ABDNOR. I think you mentioned that in your testimony.

Mr. CARMEN. Yes, sir.

Senator ABDNOR. Mr. Carmen, and gentlemen, I certainly commend you on very fine responses today, and I know it has been a real challenge. It looks like you are accepting it, and holding on very well in the first year. I commend you for the things that you have done.

Those are all the questions that we have. I would say that if something does come up we will give you written questions.

With that, we thank you very much for your attendance.

Mr. CARMEN. Thank you very much, Senator.

SUBCOMMITTEE RECESS

Senator ABDNOR. We will stand in recess until 10 a.m., Thursday and we will be hearing from the Administrative Conference of the United States and other agencies.

We will stand in recess.

[Whereupon, at 11 a.m., Tuesday, May 4, the subcommittee was recessed, to reconvene at 10 a.m., Thursday, May 6.]

TREASURY, POSTAL SERVICE, AND GENERAL GOVERNMENT APPROPRIATIONS FOR FISCAL YEAR 1983

THURSDAY, MAY 6, 1982

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, D.C.

The subcommittee met at 10:12 a.m., in room 1223, Everett McKinley Dirksen Senate Office Building, Hon. James Abdnor (chairman) presiding.

Present: Senator Abdnor.

OFFICE OF PERSONNEL MANAGEMENT

STATEMENT OF DONALD J. DEVINE, DIRECTOR

ACCOMPANIED BY:
- JAMES W. MORRISON, JR., ASSOCIATE DIRECTOR, COMPENSATION GROUP
- JEAN BARBER, ASSISTANT DIRECTOR FOR FINANCIAL CONTROL AND MANAGEMENT, COMPENSATION GROUP
- GEORGE NESTERCZUK, ASSOCIATE DIRECTOR, ADMINISTRATION GROUP
- DONALD R. WILLIAMS, ASSISTANT DIRECTOR, OFFICE OF FINANCE AND BUDGET
- SIDNEY M. CONLEY, BUDGET OFFICER

INTRODUCTION OF ASSOCIATES

Senator ABDNOR. The subcommittee will come to order.

This begins the fourth day of this subcommittee's hearings on budget requests of agencies within the Treasury, Postal Service, and General Government appropriation bill for fiscal year 1983.

Today we have an exceedingly tight schedule, and I am going to ask each witness to be as brief as possible. Rest assured that everyone's statement will be included in the record in its entirety.

Now, our first witness this morning is the Hon. Donald Devine, Director of the Office of Personnel Management.

Again, Mr. Devine, we are always honored to have you with us, and I see you have quite a contingent with you. You may introduce them, and proceed as you wish.

Mr. DEVINE. Thank you.

They can introduce themselves quickly.

Mr. WILLIAMS. I am Don Williams, Assistant Director, Office of Finance and Budget.

Mr. NESTERCZUK. George Nesterczuk, Associate Director, Administration Group.

Mr. CONLEY. Sid Conley, Budget Officer.

Mr. MORRISON. James Morrison, Associate Director, Compensation Group.

Ms. BARBER. Jean Barber, Assistant Director for Financial Control and Management, Compensation Group.

Senator ABDNOR. Good. We ought to get all the answers here.

Mr. DEVINE. I will just summarize very briefly.

For our salary and expenses budget there is a nominal increase shown for 1983 over 1982. However, our 1982 budget did not include the pay raise, and the 1983 does, and our space rental charges have increased as they have governmentwide. When you take those two items into account, there is actually a substantial decrease in the amount of our budget available for operating programs.

Within the Office of Personnel Management, our priority has been to emphasize our basic programs; to oversee the operations of the Federal personnel system, its laws, operations, staffing, and suitability of candidates; to provide training; and to oversee the efficiency of the health and other trust funds.

We have tried to focus on our primary objectives. We have eliminated the grant assistance to State and local governments, and we are cutting back on other less essential functions.

I would like to mention one part of our trust fund account that deals with the supplemental request. We have asked for a $300 million supplemental for the health trust fund account. Our annuitant population has been growing; and because of sharp increases in overall costs of health benefits, even with the reductions that we were able to accomplish last year, we do not believe we will be able to meet our full obligations to make payments for months beyond June unless we receive that supplemental. It is very important to us, and to employees in the executive, and, I might add, the legislative branch, that we can pay the claims which our people incur under the Federal Government's health benefits program.

PREPARED STATEMENT

You have the remainder of our testimony, and that is all I would like to highlight.

[The statement follows:]

STATEMENT OF DONALD J. DEVINE

Good morning. I am pleased to be here to discuss with you the Office of Personnel Management's budget requests for Fiscal Year 1983 and our supplemental budget requests for Fiscal Year 1982.

My colleagues this morning include Mr. James Morrison, Associate Director of the Compensation Group, Ms. Jean Barber, Assistant Director for Financial and Control Management, Mr. George Nesterczuk, Associate Director of the Administration Group, Mr. Don Williams, Assistant Director of the Office of Finance and Budget, and Mr. Sidney Conley, Budget Officer.

Let me begin by summarizing our FY 1983 budget request. This request totals $16.5 billion in budget authority for Federal funds, an increase of about $1.0 billion, or 6% over FY 1982. Over $16.4 billion is for the Civil Service retirement and insurance programs -- $4.9 billion is appropriated and $11.5 billion is provided under permanent indefinite authority.

Over 99% of the increase from 1982 to 1983 (as well as over 99% of the 1983 base) is for payment of the retirement and insurance benefits of Federal workers which we are required to request under existing legislation. This part of the budget request will be reduced by $8.9 million if legislation is passed that would index the cost-of-living allowance to the lesser of the Consumer Price Index or the GS salary increase, impose a cap on annuities and make technical changes that would facilitate the detection of fraud and abuse. This legislation, in addition to saving $8.9 million in the account Payment to the Civil Service Retirement and Disability Fund in FY 1983, would reduce outlays from the fund itself in 1983 an estimated $489 million (or 2.3%).

The remaining $230.0 million in our budget request represents $44.7 million to be transferred from the trust funds to administer the retirement and insurance programs, $82.6 million to provide reimbursable services to other agencies, and $102.6 million in direct Salaries and Expenses appropriation to finance OPM's operating programs.

Let me spend a few minutes discussing our Salaries and Expenses appropriation request. On paper, the resources requested for this appropriation increase by $1.4 million from FY 1982 to FY 1983. However, the money actually available for us to carry out our program responsibilities is decreased. There are two explanations for this. First, an amount to finance the October 1981 General Schedule pay raise is included in the 1983 figures but not in 1982, as OMB is preparing a separate request for government-wide pay raise needs. Second, the rate we must pay GSA for space rental increases substantially in 1983. Our S&E dollar level for 1983, when adjusted for pay raise and increased cost of space, is actually 6.4% below FY 1982 operating levels. This reduction comes on top of a program decrease of almost 16% from FY 1981 to FY 1982.

Obviously, all our programs are being affected to some extent by reductions of this magnitude. However, we have carefully realigned our functions and resources to minimize the impact of these reductions on those programs we view as highest priority. Programs of lesser priority are being eliminated or refocussed to concentrate on those activities with high potential for short-term payoff and clear relevance to our basic personnel responsibilities.

Two areas we have identified as high priority are our staffing (recruiting, examining, and suitability) responsibilities, and our oversight of Federal personnel laws and regulations. We plan to devote a major part of our S&E budget to continuing and, in fact, strengthening our activities in support of these responsibilities. For example, in the oversight area, we will focus our evaluations on personnel rather than general management issues, which will allow us to do more in-depth evaluations in the area for which we have statutory responsibility. We will also require agencies to take corrective action to address problems uncovered by our evaluations. In the other area, we are withdrawing some existing delegated examining and other authorities where we feel that such delegations are inconsistent with legal intent, and are revising criteria for future delegations.

This does not mean that cost savings opportunities are not being identified, even in these high-priority areas. Where money can be saved through more efficient organization and work methods, it will be. For example, in our recruiting and examining program, we are reorganizing our field structure and combining selected area and branch offices. We are also increasing our use of automated telephone answering equipment to more efficiently respond to public requests for job information. These changes will allow us to decrease resource expenditures without compromising an essential program.

Of course, we have had to make some hard decisions about which activities can no longer be supported with our contracting S&E resources, and which should be refocussed to provide more immediate, if more limited, benefits. As I have discussed before with this committee, our state and local assistance activities will terminate in FY 1982. In addition, our consulting services program, which provided technical assistance to agencies in such areas as financial management, management information systems, and organizational analysis, has been curtailed to free up resources for other activities which more closely relate to OPM's basic mission.

Our productivity program has been redirected and, I believe, strengthened, by consolidation with our performance appraisal group. A sound performance appraisal system is critical to any productivity improvement effort. Combining these groups recognizes the interdependence of their missions, and provides more resources in the short term to help agencies deal with problems in their new performance appraisal systems.

OPM's agency liaison activity is being reduced in FY 1982. Our network of agency officers was created to help agencies implement the Civil Service Reform Act. Now that the Reform Act has been implemented, basic liaison responsibilities will be returned to our operating programs. A small corps of agency officers will be retained as a central contact point for agencies seeking advice and assistance on their personnel programs.

OPM has recently undergone a reorganization which enabled us to eliminate about 300 positions and reduce the number of organizations reporting directly to me. I might add that our external activity structure will be revised in FY 1983 so that future budget submissions will reflect our internal organization.

Through these types of program changes and realignments, our S&E programs are continuing to provide high quality service in those areas which I feel are basic to our mission.

Let me turn my attention now to the resources to be transferred from the trust funds to administer the retirement and insurance programs. These funds will support activities which I view as among the most critical performed by OPM. Of particular priority to me are those activities which can be classified under the heading of improving the integrity and efficiency of our retirement system. They include the timely processing of claims so that Federal retirees who have dedicated their careers to government service get their pension checks on time, improving our service on disability retirements, protecting the retirement funds from waste, fraud, and abuse, and tightening up requirements for obtaining early retirement authorizations. These efforts are already underway. The dollar levels requested for FY 1983 will allow us to continue giving them the attention they deserve.

Finally, in addition to our FY 1983 budget request, we are requesting two FY 1982 supplementals at this time. The first is $303.8 million for the Government Payment for Annuitants, Employee Health Benefits. This supplemental will enable the Government to cover the cost of increased premium rates and greater than expected annuitant participation. The second supplemental request is $303.2 million for the Government Payment to the Civil Service Retirement and Disability Fund. It represents the first of 30 payments necessary to cover the unfunded liability created by the Wage Grade and General Schedule pay increases in 1981.

That concludes my opening remarks on our budget request.

ELIMINATING GRANTS TO LOCAL ASSISTANCE

Senator ABDNOR. Well, thank you, Mr. Devine.

Have you eliminated the grants to local assistance—I suppose you have had a lot of howling on that, have you not?

Mr. DEVINE. Actually, very little. It was a program put in 10 years ago to upgrade the merit systems of State and local governments. The program was in operation 10 years; it is our belief that 10 years is a long enough period for a pilot program. It accomplished some positive things, but I think by and large the State and local governments are able to handle their personnel systems now.

We received very little negative criticism on that.

Senator ABDNOR. Good. It is good to hear. It makes it easier for you and your people.

COMPRESSED WORK SCHEDULE

Please tell the people about your problems concerning Federal employees' flexible and compressed work schedule.

Mr. DEVINE. This caused a little bit of discussion when the House of Representatives passed a bill which we felt did not provide enough protection against some of the abuses that we found in the system.

I would like to clarify that this program does not refer to what most people understand as flexitime. It does not refer to people who work normal 5 day weeks, coming in earlier, or coming in later, as long as they meet the required number of hours in a particular day. What it does refer to is the program that allows people to work less than a straight 5 day week over a 2-week period, of having 10, 12 hour days, and so forth, and then taking off 1 day. It is this program that we have been concerned with. Senator Stevens has introduced a bill on the Senate side which we believe provides adequate management control. The administration is supporting this bill.

Senator ABDNOR. How exactly does that work, again? It is not really designed for someone's option to decide whether they want to work extra hours one day, and then build up the extra hours and take 1 day off, that is not intended to do that?

Mr. DEVINE. Well, there are two programs. One allows a movement around the core part of a day. People, instead of coming in at 9 o'clock may come in at 6 or 7 o'clock, and then leave at 4 or 5 o'clock; this flexitime program has not been under discussion at all; it is a program that has been working for many years in the Government, and we feel that there are sufficient management controls on that program.

The debate was over the compressed workweek program, which was put in on an experimental basis a little over 2 years ago. It was this program of working 8 days out of 10, or 9 days out of 10, with longer hours each day, that we found brought about some cases of installations such as the Coast Guard being shut down completely on every Friday. The Department of Transportation has since ended the program for the Coast Guard.

All we wanted to do was to make sure that management had the opportunity to review the existing compressed workweek schedules. We think in some cases they make management sense, but we want management to be able to review those situations, and be able to end them where they are not cost efficient.

Senator ABDNOR. In other words, it is not going to be just what each employee wants to do, it is what the administrative head determines?

Mr. DEVINE. Yes, sir.

Senator ABDNOR. He is the final judgment and decision on that.

HEALTH INSURANCE PROGRAM

On payments to health insurance carriers, what are your problems in this area? That is a big, big area.

Mr. DEVINE. The major problem that we face, as everybody does, in both the public and private sectors, is the prospect of increasing costs for health insurance benefits. In 1980, medical costs increased more than they have done in any year in the last 15 years.

By making reductions in benefits, and by bargaining with the health insurance carriers, we were able to save about $120 million for the Federal employees' health benefits fund, and therefore save for the taxpayers.

We have made significant changes that in the long run will improve our health benefit system, by putting in deductibles and coinsurance features. Several studies since then have come out and have shown that that is really the only way to get the cost of medical care under control.

But even given these changes, we still need a supplemental appropriation of about $300 million, so that we can meet the legitimate costs of health care for employees in the Federal Government.

We expect that our funds will be insufficient to meet the full monthly payments due for months after June. We may be able to make some payments for July, but we do not think we will be able to make all the payments due to the carriers. That means that they will not be able to pay the claims for people who submit them; therefore we feel that it is very important that we get that supplemental appropriation.

Senator ABDNOR. Well, we get a lot of—not pressure, but we get a lot of mail, at least I think all Members of Congress do, and the Members of Congress become quite interested in this program, and to add other features, such as psychiatric care, the alcoholic program, and other things, what does that do to the policy?

I guess you had to look into all of these.

Mr. DEVINE. Yes; the primary decision for what kind of benefits are offered, and what level of benefits, is up to the carriers. That is, the insurance companies, and the employee unions, and other organizations that are part of our Federal employees' health benefits program.

We have an obligation to evaluate what coverage they give, and the level of that coverage, but there is a limit to what OPM can do to force them to give different kinds of coverage, and the level. After all, they bear the ultimate risk in providing the benefits. The Government pays about 60 percent of the premium cost, and the employees pay about 40 percent.

We instructed the carriers that we did not want them to eliminate protection for mental health benefits, but the carriers made some very persuasive arguments about the degree of risk that they are able to accept, so they did limit the amount of coverage that they will give for out-of-hospital mental health costs and adjusted the number of days it covered; in addition, the carriers changed the coverage for treatment of alcohol problems.

But what we tried to do is to have a balance. We had a very severe crunch in what the Government could afford. As I mentioned, even with all the reductions that we did make, we are still asking you for $300 million supplemental, so these are judgment kind of questions that we at OPM, and also, the insurance carriers, have to make in both the mental health area and the area of alcoholic treatment.

We do have coverage for those benefits, not as high as some might want, but we do have coverage which we consider adequate, given the general problem of risk for the carriers and the Government.

Senator ABDNOR. There is some coverage left in that?

Mr. DEVINE. Yes, sir.

Senator ABDNOR. It has been cut back?

Mr.DEVINE. Yes.

Senator ABDNOR. Am I correct in saying—I suppose the carriers would buy it provided they wanted to pay for it.

Mr. DEVINE. The problem then is that everybody has to share the risk. The concept of insurance is to share the risk, and there are some items that could possibly be covered under an insurance plan in which there really is not an insurance risk pool. And if the decision to have the coverage is wholly at the discretion of the individual, there is a lot of discretion as to whether you can have the coverage or not, you are really not into an insurable risk category, because an insurable risk category has to be based on the assumption that it is something that will happen to you, basically beyond your control. You get sick, or in an accident, or so forth.

So insurance companies find that some types of coverage, although it would be nice if they could afford them, are basically uninsurable.

For example, one thing that we do not cover is counseling, marriage counseling, for example. One could argue that that is a health benefit, but the problem is it is basically an uninsurable risk, because the demand is almost infinite for that, even in good marriages.

Senator ABDNOR. Well, thank you.

You said $320 million you are waiting for, we call an urgent supplemental appropriation? I guess it is that for you.

What is the deadline, July first?

Mr. DEVINE. We can meet some of our bills for July, but we cannot meet all of them. And it is questionable whether we can meet some of them, and not all of them. How can I decide which insurance company will pay the claims, and which will not?

This is not in the urgent supplemental, but in the regular supplemental.

Senator ABDNOR. I thought it was in the urgent.

Mr. VAN KIRK. It is not in the urgent supplemental. But if it is only one, it will be on the first truck going through. Hopefully.

Mr. DEVINE. Hopefully.

Senator ABDNOR. I guess we have a challenge here on our part, too.

Well, I know there are many other questions that we could ask you, but I am sure you have to get back to work, and we have many witnesses today, and if we do have additional questions, we will just submit them to you people in writing.

Mr. DEVINE. Certainly, we will be happy to answer them in writing. Thank you, Senator.

MERIT SYSTEMS PROTECTION BOARD

STATEMENT OF HERBERT E. ELLINGWOOD, CHAIRMAN

ACCOMPANIED BY:
ERSA H. POSTON, VICE CHAIR
RICHARD REDENIUS, MANAGING DIRECTOR
EUGENE HILL, DIRECTOR OF BUDGET AND FINANCE

INTRODUCTION OF ASSOCIATES

Senator ABDNOR. All right, our next witnesses will be the Merit Systems Protection Board.

Mr. Ellingwood, we welcome you to our committee today. I see you are accompanied by several of your people. If you will introduce them, do whatever you want to, proceed with your statement. We do not require that you read it in its entirety.

Mr. ELLINGWOOD. To my right is Ersa Poston, the Vice Chair of the Board; and Mr. Redenius is our Managing Director; and Eugene Hill is our Director of Budget and Finance.

Having only been confirmed last night by the Senate, it is a pleasure to appear before you today and present the appropriations request.

STATUS OF FISCAL YEAR 1982 SUPPLEMENTAL

Before addressing the Board's needs for the fiscal year 1983, however, I would like to spend a few minutes to bring you up to date with the problems that still plague our fiscal year 1982 request and the effects that these problems have had on our ability to satisfy our statutory obligations under the Civil Service Reform Act.

A year ago, Mr. Chairman, the Board testified that, as difficult as it would be, the Board was prepared to take whatever managerial steps would be necessary to reach the level of spending that had been recommended by the President for fiscal year 1982, $15.037 million. The Board cautioned, however, that since RIF's, by law, are appealable to the Board, we could be successful in staying within this budget level only if the possibility of large numbers of RIF appeals resulting from Government-wide efforts to achieve lower employment levels failed to materialize. However, such was not the case. The number of RIF appeals increased by nearly 1,200 percent, from 92 pending 1 year ago, to 1,116 as of April 17, 1982. But that increase pales in comparison to the deluge that simultaneously hit the Board in the form of nearly 11,000 appeals from former air traffic controllers. These two enormous influxes, coupled with a 20-percent increase in other types of appeals, have left the Board with a staggering caseload which has nearly overwhelmed us. Mr. Chairman, 1 year ago we had 1,625 cases pending nationwide. Today, we have pending, at the Board and in our 11 regional offices, 13,895 cases.

Mr. Chairman, it is not really necessary to recount the events that have transpired since October, except to say that the Board has been operating under a level of funding sharply lower than the President's budget, due to a 16-percent reduction imposed in the continuing resolution. This reduction included the 4-percent reduction in funding to all Government agencies, as well as this committee's 12-percent reduction, although the President had asked for an exemption for the Board from that 12-percent cut. And, despite our own efforts, and the support of the administration for supplemental appropriations we have not yet been able to obtain supplemental funding to relieve our situation, though we are optimistic that H.R. 5922 will provide such relief. Without it, we simply cannot survive for the remainder of this year at levels set in Public Law 97–92. The sheer number of cases now pending and anticipated as further RIF's and furloughs take place will simply overwhelm us and destroy the credibility of the system.

Mr. Chairman, as a result, the Board has requested $4.006 million in supplemental funding to provide for the processing of air traffic controller appeals and to meet sharply increased costs of other Board operations.

FISCAL YEAR 1983 REQUEST

We have submitted to you a detailed explanation of our fiscal year 1983 request. However, I would point out that the $16.336 million request is based on our assumption that the air traffic controller appeals will be largely completed during fiscal year 1982. Should this not be the case, our financial problems may continue into fiscal year 1983. I would also emphasize, Mr. Chairman, that as with our supplemental request, OMB is in complete accord with this fiscal year 1983 request.

That concludes my statement, Mr. Chairman, and I will be pleased to respond to any questions that you may have.

Senator ABDNOR. It is understandable, your dilemma here, the jump in caseload.

If you had $20 million, could you do the job?

Mr. ELLINGWOOD. Yes, we could.

Senator ABDNOR. You expect this caseload to continue on? I realize that you have got the backlog.

Mr. ELLINGWOOD. The normal caseload is going up about 20 percent and, as the difficulties in Government employment become harder, you are going to have more people appealing the different actions that happen in agencies.

Right now, it looks like a 20-percent increase in all appeals. Normally we have had 25 percent of the cases, as I recall, that have been appealed from the regional offices to the Board. That has been increasing, to my understanding, by 50 percent, so 30 percent of those cases which have been decided are now appealed from the regions to the Board. So there is an increase of 20 percent across the board, and another 10 percent of those are appealing to the Board for review.

Senator ABDNOR. How long does it usually take for that kind of a caseload, before a case is determined?

Mr. ELLINGWOOD. Well, during last year, and the previous years, the record has been very good. Over 98 percent of the cases have been decided within the first 120 days. However, that does not mean that by that time they have been reviewed by the Board. We set a 120-day limit on the regional level, and 110-day limit for appeals. We have met that objective in the past but we cannot do that any longer. In fact, we are falling 40 cases a month behind, even though we increased our output. So we are having real difficulties.

Senator ABDNOR. You have to put on additional people?

Mr. ELLINGWOOD. We need to get up to our complement. We are now down to 310, with an authorization of, how many?

Mr. REDENIUS. We are authorized, if this budget comes through, at a level of 392 for the year, and we are just over 300 now. We are at 311.

Mr. ELLINGWOOD. And then our supplemental will allow us to put on additional people to handle the air traffic controller cases.

AIR TRAFFIC CONTROLLER APPEALS

Senator ABDNOR. Speaking of the air traffic controllers, how long do you think it would be before we—this reaches conclusion?

Mr. ELLINGWOOD. The final date for discovery is this month. Many of the cases, hundreds of the cases, have been set for hearing, so that the hearing will actually begin in June. Then we have the time frames that run from that. Although we will be able to consolidate some of the cases, some of them will have to be heard individually, or at least in small groups. There are many things that we are doing to try to expedite that particular process, but it is not going to be a short time frame.

Senator ABDNOR. Quite a while?

Mr. ELLINGWOOD. It could be. The difficulty, Mr. Chairman, though, is if the budget does not come through, we will have many, many cases filed in court to circumvent the system. This has already occurred in many instances. So far, every court has upheld the exclusive jurisdiction of the Board to handle air traffic controller cases, but if we do not have the resources, then they have a legitimate argument, to say that they have already exhausted their remedy, because we do not have the resources to carry them. Then the court would, on its own, take the case under submission, and decide the case outside of what the Congress has set up as the exclusive system for handling these kinds of appeals.

Senator ABDNOR. But if you are able to accommodate the case then——

Mr. ELLINGWOOD. The best argument that we had before the court thus far is that we have been included in the urgent supplemental, and we have letters from Mr. Stockman, and no Congressman has yet said that he is opposed to the supplemental, and therefore the court has heard that and said we will be able to handle the cases expeditiously. Their position is that we will get the money and move ahead.

PREPARED STATEMENT

Senator ABDNOR. We hope so. That the House will get moving.

As you know, yesterday it did not work out. I would like to see what happens.

Thank you. We appreciate your appearance. We will place your prepared statement in the record.

Mr. Ellingwood. Thank you.

[The statement follows:]

STATEMENT OF HERBERT E. ELLINGWOOD

It is a pleasure to appear before you today to present the annual appropriations request of the Merit Systems Protection Board. Before addressing the Board's needs for the Fiscal Year 1983, however, I must first bring you up to date with the problems that still plague our Fiscal Year 1982 request and the effects that these problems have had on our ability to satisfy our statutory obligations under the Civil Service Reform Act.

As you know, these obligations include:

- o the adjudication of Federal employees' appeals from agency personnel actions;
- o the conduct of special studies of the Federal merit systems;
- o the review of significant actions of the Office of Personnel Management.

In adjudicating employee appeals, the Board is required by law not only to process them fairly and thoroughly, but also in an expeditious manner. To meet that requirement, the Board established a 120-day time limit for the processing of appeals by its eleven regional offices. In years past, the Board has been able to report favorably on its record of achieving this goal. Once again, I can report to you that, in 1981 the Board processed 98 percent of its cases within that self-imposed time limit.

Unfortunately, I can say already that our ability to meet these high standards will drop markedly in 1982. While I cannot offer a precise projection of what our record will be, it certainly will be substantially less.

The reason for such a severe drop is two-fold: first, the dramatic increase in case receipts due to air traffic controller appeals and appeals resulting from reductions-in-force (RIF's) at Federal agencies; second, the sixteen percent reduction in funding created by the enactment of H.J. Res.

390, (Public Law 97-92), and its extension, H.J. Res. 409, (Public Law 97-161). Together, these events have resulted in an almost impossible task for the Board -- that of continuing to provide timely processing for all appeals as mandated by Congress.

A year ago, Mr. Chairman, the Board testified that, as difficult as it would be, the Board was prepared to take whatever managerial steps would be necessary to reach the level of spending that had been recommended by the President for FY 1982, $15.037 million. The Board cautioned, however, that since RIF's, by law, are appealable to the Board, we could be successful in staying within this budget level only if the possibility of large numbers of RIF appeals resulting from government-wide efforts to achieve lower employment levels failed to materialize. However, such was not the case. The number of RIF appeals increased by nearly twelve hundred percent, skyrocketing from 92 pending one year ago, to 1,166 as of April 17, 1982. But that rising tide pales in comparison to the wave that simultaneously hit the Board in the form of nearly 11,000 appeals from former air traffic controllers. These two enormous influxes, coupled with a 20% increase in other types of appeals, have left the Board with a staggering caseload which has nearly overwhelmed us. Mr. Chairman, one year ago we had 1,625 cases pending nation-wide. Today, we have pending, at the Board and in our eleven regional offices, 13,895 cases. (I am submitting with this testimony for inclusion in the record a statistical summary which further illustrates this incredible growth in caseload.) Thus, when President Reagan requested an additional twelve percent reduction for Federal agencies in September 1981, the Board was relieved to learn that MSPB was recommended for an exemption from that across-the-board cut.

From October 1, 1981, until December 15, 1981, MSPB operated under two consecutive Continuing Resolutions which authorized the Board to function at the $15 million level. These resolutions were necessary, of course, because the Board's regular appropriations bill, the Treasury, Postal Service and General Government Appropriations (H.R. 4121), had not been enacted. In mid-December 1981, a third Continuing Resolution (Public Law 97-92) was passed which applied a 4% reduction in funding to all government agencies. However, since this resolution incorporated your reported level which had already imposed a 12% reduction for most agencies, including the Merit Systems Protection Board (notwithstanding the President's recommended exemption) the end result was a devastating 16% slash for the Board. To make matters worse, the imposed reduction was applied retroactively to October 1st, effectively converting it into a reduction of nearly 23%. As you know, this level was then extended for the remainder of this year by H.J. Res. 409 (P.L. 97-161). Thus, Mr. Chairman, the Board today is attempting to operate under a sharply lower level of funding than the President recommended, as we grapple with a caseload nearly triple that of a year ago.

In February former OMB Deputy Director Harper testified before the House Appropriations Subcommittee that the Merit Systems Protection Board was one agency which could not survive for the remainder of FY '82 under current Continuing Resolution levels, and that the Administration not only supported a restoration of the Board's 1982 Appropriation to the full $15.037 million level proposed by the President and adopted by the House in H.R. 4121, but that supplemental appropriations of approximately $4 million would also be necessary. I must underscore Mr. Harper's point -- we simply cannot survive for the remainder of this year at the levels set in Public Law 97-92. The sheer numbers of cases now pending and anticipated as further RIF's and furloughs take place will simply overwhelm us and destroy our credibility.

Later, OMB Director Stockman reiterated to the Congress the Administration's strong support for a restoration of the Board's 1982 budget to $15 million and for an additional 1982 supplemental of $4.006 million. This $4 million supplemental request has since been approved by the House Appropriations Committee and is now scheduled for floor action in the House (H.R. 5922).

In the meantime, however, the Congress agreed upon extending the continuing resolution through the remainder of FY'82, thus diminishing the likelihood of a restoration of the Board's 1982 Appropriation to the full $15.037 million level proposed by the President. As a result, while our supplemental request of $4.006 million would enable us to begin to take the steps necessary to continue our operations and to process our increased caseload, it remains unclear as to whether that will be enough.

With that preamble, I would now like to briefly discuss with you the budget requests which we are today presenting. I might say that this has been a difficult budget to prepare, given the uncertainties which still exist in our 1982 appropriations. I would like to address our budget requests in two parts: first, to illustrate again briefly the critical need for that supplemental funding, and then our 1983 request based on an assumption that the $4 million supplemental will have been appropriated.

FISCAL YEAR 1982 SUPPLEMENTAL

The Board is requesting $4,006,000 in supplemental funding to provide for the processing of Air Traffic Controller appeals and to meet sharply increased costs of other Board operations. Of the requested $4,006,000, $2,773,000 is expected to be used for Air Traffic Controller appeals. This would allow us to hire a significant number of new staff, particularly in our regional offices, to handle this huge influx of cases.

The remaining $1,233,000 is needed to pay for uncontrollable cost increases imposed by the General Services Administration for the rental of office space and our move of the Board's Headquarters into a new and permanent facility, and for the reimbursement of the Office of Personnel Management for the use of its financial management system.

FISCAL YEAR 1983

Since we submitted to you a detailed explanation of our Fiscal Year 1983 requests, I will not take your time to examine it again. However, I would like to say that this $16,336,000 request represents a careful assessment of the minimum which will be needed to carry on the Board's essential operations. I should note, though, that the justification provided illustrates our basic assumption that the Air Traffic Controller appeals will be largely completed during FY 1982. Should this not be the case--and it clearly will relate to the level of funding which finally becomes available this year, since that has a direct impact on how many cases can be completed--our financial problems may continue into Fiscal Year 1983.

I am pleased to note for the Subcommittee that this FY '83 request is in full agreement with the President's budget and that we believe we can accomplish our mission in a responsible fashion within those funding levels.

That concludes my statement, Mr. Chairman, and I will be pleased to respond to any questions which the Subcommittee may have.

U.S. MERIT SYSTEMS PROTECTION BOARD

WORKLOAD COMPARISON FIGURES

CASES PENDING AS OF:	**4/18/81**	**4/17/82**
Reductions-In-Force	92	1,166
Air Traffic Controller Appeals	0	10,874
All Other Appeals	1,533	1,855
Total Appeals	1,625	13,895

OFFICE OF THE SPECIAL COUNSEL

STATEMENT OF ALEX KOZINSKI, SPECIAL COUNSEL

ACCOMPANIED BY WILLIAM CALDWELL, DIRECTOR, OPERATIONS MANAGEMENT

PREPARED STATEMENT

Senator ABDNOR. Next is the Office of Special Counsel, Alex Kozinski.

Welcome, Mr. Kozinski.

Mr. KOZINSKI. Good morning, Mr. Chairman.

May I introduce my Director of Operations Management, Mr. William Caldwell.

We have submitted a statement for the record, and I will be very brief in summarizing.

[The statement follows:]

STATEMENT OF ALEX KOZINSKI

I am pleased to make my first appearance before you today to review our funding request for FY 1983.

The Office of the Special Counsel receives and processes whistleblower allegations of illegality, fraud, waste, mismanagement, danger to public health or safety or abuse of authority. 5 U.S.C. § 1206(b)(3)&(4). Prompt action on these allegations can result in considerable savings and recoveries for the government. In this connection, I participate in the President's Council on Integrity and Efficiency and as Special Counsel I can play a key role in promoting the goals of that organization. The office has exclusive jurisdiction over the civil enforcement of the Hatch Act, 5 U.S.C. § 1206(e), and investigates, prosecutes or otherwise acts on violations of laws governing prohibited personnel practices. 5 U.S.C. § 1206(c)&(g).

As you are aware, the Office of the Special Counsel was established in January 1979 under Reorganization Plan No. 2 of 1978 and the Civil Service Reform Act of 1978. Since being sworn into office on June 5, 1981, I have been committed to fulfilling the statutory mandates of the office. At the same time, however, I have been determined to adhere to the President's fiscal goals.

Because of the long absence of permanent leadership, fiscal restraints and other factors, the office has yet to become fully staffed or fully effective. In spite of the many existing problems encountered, however, I am pleased to report that we have--

- Completed investigation and/or legal action on approximately 2700 cases of a total of 3800 cases pending during FY 1981. This amounts to completion of 71% of the caseload. During FY 1982, we have been able to successfully close 75% of our caseload thus far. However, we had 586 cases on hand as of mid-April due to the recent trend of our receiving more new cases than are closed during the same period; hence, our caseload and backlog seem to be progressively increasing in relation to our shrinking staff resources to manage the caseload.

- Filed three disciplinary action, four corrective action and five Hatch Act disciplinary action complaints during FY 1981 and one disciplinary action complaint in FY 1982.

- Filed nine petitions for stays of personnel actions with the Board during FY 1981 and four so far in FY 1982.

- Intervened in eleven matters pending before the Board in FY 1981 and two in FY 1982.

- Referred 51 whistleblower allegations during FY 1981 to agency heads, including: nine for investigation and report to the Special Counsel for transmittal to the complainant, to the Congress and to the President under 5 U.S.C. § 1206 (b)(3) and 42 for a report to the Special Counsel of actions taken for the Special Counsel to evaluate and advise the complainant under 5 U.S.C. § 1206 (b)(7). So far during FY 1982, we have referred 29 whistleblower allegations to agency heads, including 27 under 5 U.S.C. § 1206(b)(7).

- Improved management of whistleblower and all other cases through implementation of a case time accounting system for professional staff and managers, as well as timeliness standards which are monitored and evaluated by strict management controls and computerized reports. The General Accounting Office cited a number of deficiencies in its December 30, 1980, report, The Office of the Special Counsel Can Improve Its Management of Whistleblower Cases. All of the recommendations by the GAO were implemented during FY 1981 and the timely handling of whistleblower allegations by agencies and this office has significantly improved.

- Made every effort to economize without jeopardizing the ability of the office to perform its mission. No additional personnel authorizations have been requested, the Denver and Boston branch offices were closed, the plan for a Chicago field office has been dropped, two field offices were consolidated under one senior manager, the Los Angeles branch office has been reduced to a single investigator, only four of the eight approved Senior Executive slots have been filled, many vacated positions have not been filled and inefficiency or incompetence has been remedied promptly when discovered. Our staff has been allowed to diminish from 89 permanent full-time positions on December 31, 1981, to 83 as of today in view of our 16% reduction in funding.

- Conducted outreach efforts to inform the public and government employees of the purpose of the office. One measure of significant improvement during FY 1981 was the distribution of more than 20,000 posters and pamphlets to various sources worldwide. However, our efforts have been severely curtailed during FY 1982.
- Dramatically improved relations with the Merit Systems Protection Board following dismissal of the lawsuit filed by the former Chair of the Board against the Acting Special Counsel.

- Planned and conducted training programs for all personnel and instituted the first performance appraisals for staff on October 1, 1981.
- Obtained more efficient and appropriate quarters for the central office staff in Washington, D.C., during October 1981. Since its inception in January 1979, the central office had been located in totally inadequate office space.

Having advised you on the operational progress of the office, I now turn to our budget request for FY 1983.

During FY 1981, the budget authority for the office was $4,390,000. For FY 1982, the Administration has requested a basic appropriation authority of $3,694,000 and supplemental appropriation authority of $342,000 ($104,000 for the 1982 employee pay increase and $238,000 for mandatory uncontrollable increases) or a total of $4,036,000 which I fully support. The supplemental requests for funds are necessitated by unanticipated obligations which developed since the original budget request. Among these unanticipated obligations are: (1) a 44% increase in SLUC charges for office rent, facilities and maintenance over FY 1981, which does not take into account GSA's recent notice that we will be billed for an additional, unexpected annual amount of $81,000; (2) an increase in servicing and maintenance costs over

FY 1981; and (3) payment to the Office of Personnel Management which, for the first time this fiscal year, is charging for payroll and accounting services provided to the office.

Consistent with the Administration's budget, the requested obligation authority for FY 1983 is $4,189,000 and 105 permanent positions. This represents an increase of $495,000 (13%) over the FY 1982 continuing resolution of $3,694,000, but a reduction of six permanent positions (5%) from the 111 permanent positions authorized for FY 1982. The increase in budget is based primarily on uncontrollable increases carrying over from FY 1982.

Our ability to fully meet congressional and Administration objectives will be limited if the office has to continue operating at the annual funding level of $3,694,000 for 1982. For example, we believe that many prospective whistleblowers would come forward if we could allay their apprehensions about reprisal. Agency Inspectors General with whom I have recently met have indicated they are ready to refer instances of reprisals against whistleblowers to the Office of the Special Counsel. However, because of our funding level, our response to these cases may be limited and our initiatives to encourage whistleblowing will be meager. The proposed funding level permits little, if any, public information and outreach activities. Limited funds in the current fiscal year have virtually eliminated travel for on-site investigations, as well as all administrative travel. Future travel for investigations will depend on the outcome of our current requests for the FY 1982 supplemental appropriations and the FY 1983 appropriation.

This concludes my formal statement which, along with our budget justification, summarizes our budget request for the FY 1983 appropriation of $4,189,000, as submitted by the President. This amount is based partially on the administration's pending request for FY 1982 supplemental appropriations. I would be pleased to answer any questions that you or other members of the subcommittee may have at this time.

BUDGET REQUEST

Mr. KOZINSKI. The Office of the Special Counsel has the statutory mission of protecting the merit system from abuses. Specifically it is designed to investigate claims by employees that they have suffered retaliation for whistleblowing, or that there has been nepotism, political abuse, or other such abuses of the merit system.

Additionally, we are authorized to receive whistleblowing complaints and order their investigation. The office has been operating, in this fiscal year, at a funding level of $3,694,000. An additional $342,000 supplemental appropriation has been approved by OMB but has not yet been approved by Congress.

Senator ABDNOR. Are they in the urgent supplemental?

Mr. KOZINSKI. No; they are not at this time. The effect of operating with a $3,694,000 appropriation has been felt by the agency. Our ability to investigate employee complaints has been seriously curtailed and we have had a significant reduction in staff.

We have tried to do our best to live within the limits of that appropriation while carrying out our mission. We believe that $4,189,000 which has been requested for fiscal year 1983 is a reasonable funding level to take care of uncontrollable expenses. It is a modest increase over the authorized amount this year, and it will allow us to carry out our mission in an effective and efficient manner.

I will be happy to respond to specific questions.

Senator ABDNOR. How much personnel do you have?

Mr. KOZINSKI. At this time, we have 83 employees. We have one central office in Washington, and we have field offices in Philadelphia, Atlanta, Dallas, San Francisco, and smaller offices in Seattle and Los Angeles. We are running all of those with a total of 83 people. We are authorized 120 people for 1982 and, I believe, 111 for 1983. We are not going to have the funds to reach anywhere close to that level. If we can come close to a staff of 100 people, I believe we can perform our mission fully.

Senator ABDNOR. Is your workload constantly increasing, or does it fluctuate?

Mr. KOZINSKI. It fluctuates. For the last several months we have had a decrease in our caseload. That has partly been due to a decrease in the number of complaints, but primarily it is the result of an ambitious program to resolve old cases and to decrease the backlog.

When I was appointed as Special Counsel we had 1,200 cases docketed within the agency. We now have fewer than 600. My philosophy is that the older the case, the more difficult it is to investigate. I have tried to implement my philosophy that cases should be handled quickly, that they should be given attention as they come through the door.

The problem, Mr. Chairman, is that we have nationwide jurisdiction. Although, we do have field offices which can handle some cases, most cases must be handled on a local basis. There is a lot of distance between our field offices and many Federal installations. As a result, significant amounts of money must be spent on investigatory travel.

We have, up until recently, been unable to spend any money for investigatory travel for about 6 months. That means a number of cases have been put on hold, pending receipt of our supplemental request.

If we received the $4,189,000 for fiscal year 1983, I think we would be able to both carry out our mission effectively, and yet do it significantly more efficiently than we have in the past. By trimming down our caseload, I think we have become more efficient.

Senator ABDNOR. Thank you.

Let me ask you, how is your relationship with the Board, good or bad?

Mr. KOZINSKI. The relationship with the Board is excellent.

I think the Chairman knows, the Board and Special Counsel have had some points of disagreement in the past. I am very pleased to say that since my appointment, my dealings with the Board have been nothing but cordial. First, with Mrs. Poston, the Vice Chair, who was the Acting Chair for several months, and now with Chairman Ellingwood, all of us have tried to put past differences behind us. Our administrative staffs work well together, our program people work well together, and we are engaged in a number of cooperative ventures to save money by using resources together. We are very pleased with our relationship at this point.

Senator ABDNOR. It has been brought to our attention that your office is alleged to have held seminars, or created a manual on how to RIF Federal employees. Is this true?

Mr. KOZINSKI. No, Mr. Chairman. We held a seminar for the Federal Communications Commission, for Washington-based agency managers and personnel officers, on how to avoid committing prohibited personnel practices. They are part of the Office's mission I discussed in my opening remarks—retaliation for whistleblowing, nepotism, and the like.

The Civil Service Reform Act of 1978 codified merit principles to be followed by Government and personnel practices which are prohibited. They are part of a complex and difficult body of civil service law. We find that agency managers frequently do not understand the difference between prohibited personnel practices and lawful action under the Civil Service Reform Act. As a result of some suggestions by GAO, along with suggestions from agency managers, we conducted the seminar at the FCC. We explained to agency managers the difference between prohibited personnel practices, which we will investigate and forcefully prosecute, and personnel actions which are based on legitimate reasons, for example, removal for cause, either for insubordination or incompetence. If a personnel action is legal, that is based on legitimate reasons and properly carried out, we want to put managers at ease that we will not prosecute them for actions which are consistent with the merit system.

Frequently we found that we were not getting cooperation from agencies because we had the image that we would challenge any agency action regardless of whether it was proper or not and try to interfere with it. I do not think that was accurate. It was, however, the impression agencies had of the Special Counsel. Because of that kind of confusion in the minds of managers and confusion about what is proper and what is not proper, we did put on a seminar. It was very successful.

I think we got very good reports from about 100 people who attended the FCC seminar, and we have had several requests for further seminars of this kind.

Senator ABDNOR. No complaints?

Mr. KOZINSKI. Other than an article in the Federal Times, I have received absolutely no complaints.

Senator ABDNOR. Let me ask you, are you going to be able to pay the rent charged by GSA, which has gone up considerably?

Mr. KOZINSKI. Well, that is a very good point, Mr. Chairman.

In the beginning of the fiscal year, when we and the Board moved into new space, GSA gave us a certain charge for rent, around $21 a square foot. They have recently reassessed it, retroactive to October 1, at something like $27 a square foot. We are now appealing that reassessment.

If it should turn out to be $27 a square foot, I do not know that we could pay the rent this year, much less for 1983.

Senator ABDNOR. It would not begin in 1983, I mean over and above the $27?

Mr. CALDWELL. They indicated the assessment could go up in 1983, and that is the basis for our supplemental request this year, uncontrolled expenses.

Mr. KOZINSKI. It is a matter still in flux and we do have an appeal to file with GSA. I do not have the answer. I guess it would depend a great deal on what GSA does with our appeal.

At the present, even though GSA has increased our rent, we would be able to pay it with the supplemental appropriation.

Senator ABDNOR. But if the supplemental goes through, that would suffice?

Mr. KOZINSKI. If it goes through.

Senator ABDNOR. Does next year's budget cover enough?

Mr. Caldwell. It covers the present appraisal, but with the new appraisal that they have given us it is not enough.

Senator Abdnor. Was the newest one $27?

Mr. Caldwell. It could go higher. The $27, actually it is $27.50, is only for the office space. The increases per square foot are higher for computer space, library space and so forth. We would not be able to meet it at the $4.189 million level.

Senator Abdnor. That is what they are talking about, $4.2——

Mr. Caldwell. Our request for 1983 would not be able to accommodate that increase at the $4.189 million level.

Mr. Kozinski. I should point out that GSA recently published suggestions for the use of space, suggesting that agencies contract for and use less space for managers, for secretaries and so forth.

We have measured our use of space consistent with those suggestions and our use is already below the GSA guidelines. We are not only below what GSA thinks the agency total should be, but also significantly below what previously was assigned square footage per employee.

Senator Abdnor. Fine, thank you.

We appreciate your being here, and your answers. If we have any other questions, we will submit them in writing.

Mr. Kozinski. Thank you, Mr. Chairman.

FEDERAL LABOR RELATIONS AUTHORITY

STATEMENT OF RONALD W. HAUGHTON, CHAIRMAN

ACCOMPANIED BY:

HENRY B. FRAZIER III, MEMBER
LEON B. APPLEWHAITE, MEMBER
S. JESSE REUBEN, DEPUTY GENERAL COUNSEL

PREPARED STATEMENT

Senator ABDNOR. Our next panel of witnesses is the Federal Labor Relations Authority, Mr. Haughton.

Gentlemen, we welcome you to the committee, and Mr. Haughton, I will let you proceed.

If you want to introduce them, you have Mr. Frazier—I will let you proceed as you care to.

Mr. HAUGHTON. Thank you, Senator.

We have a prepared statement that we submitted to your office. We have a supplemental statement, Senator, that we would like to have included in the record, with your permission. I will not go into that in great detail, because it does not relate directly to our budget request, but we would like it to be a part of the record.

Senator ABDNOR. Yes; we would like it to be a part of the record.

[The statement follows:]

Statement of Ronald W. Haughton

My associates, Mr. Henry B. Frazier III and Mr. Leon B. Applewhaite, Members of the Authority, and Mr. S. Jesse Reuben, our Deputy General Counsel, come before you today at a time when the budgetary requirements of our agency are at a critical stage.

As you are probably aware, for FY'82 we started at an OMB proposed budget level of $16,812,000. Currently, as a result of the application of successive cuts of 12 percent and 4 percent contained in the continuing resolutions, we are restricted to an annual expenditure rate of $14,203,000. So far in this fiscal year we have had to reduce our national and regional staffs by some 47 persons out of 351 and we still face the potential for a significant furlough if we do not get additional funding to bring the net cut down to 12 percent.

Besides staff reductions, we have cut back by approximately 80 percent on travel for basic mission functions such as investigation and prosecution of unfair labor practices and conducting of representation elections. In recently holding some very sensitive representation elections in Panama, it was necessary to ask the Department of Defense to conduct the elections. Because of our budget situation, we could only supervise the elections, not conduct them ourselves as we ordinarily would have done.

While these are FY'82 matters, I mention them to show that OMB, even in the face of what are the tightest of budget constraints, has sent forward an FY'83 budget for the FLRA of $15,745,000. This reflects a recognition that this is a minimum need to meet our basic requirements.

Our FY'83 budget submission details FLRA's increased case activity. Deputy General Counsel Reuben will speak to the caseload in the field. All of the caseload of the agency continues unabated as Federal employees, their labor organizations and Federal agencies seek third party resolution of their concerns.

We know that a caseload cannot endlessly justify additional resources, but that is not the issue with this budget. We are seeking a resource level significantly less than sought in FY'82 as a result of OMB approval. It clearly represents operational minimums.

We stress that we continuously recognize that tight budget circumstances require improved management. We have had some problems of administration, particularly regarding the initial procurement of furniture for the Members' offices. We are not happy with the way those purchases were handled. However, the Authority was a new and small agency when these purchases were made. We had only one contracting officer who, under considerable time pressure, had to find and lease space in Washington and nine other cities and to procure furniture, equipment and supplies for them out of start-up funds. In my opinion, we used poor judgment in the purchase of the furniture, but certainly no impropriety or illegality was intended. Subsequently, we have asked the help of the General Accounting Office to build into our procurement process maximum protection procedures to assure that such problems do not recur.

While we do not underestimate these problems, we are proud of the way the Authority has handled its primary mission of deciding labor-management relations cases. In our three years of operation, we have issued over 800 unanimous decisions, and only two with dissents (one of these, PATCO, ended up as a unanimous decision), many involving hard-fought matters going to the heart of the collective bargaining relationship. During this whole period, we have not lost sight of the importance of sound case management as a means of increasing quality production.

On the Authority side we have engaged in a series of case handling modifications to increase productivity. We have used task forces to break out older cases and reduce levels of review. We have provided for the quick disposal of non-exception unfair labor practice cases. We have developed modified decisional forms which reduce greatly the amount of drafting in a decision. We have reorganized our case handling staff so as to permit teams of people to focus on types of cases presenting common problems, thus eliminating redundant review.

These steps have had a dramatic effect on our case production. In the first quarter of calendar year 1982, despite the 22 percent national office RIF which took effect in January, the agency issued 144 cases as compared to 61 a year earlier, an increase of 136 percent. This was not by requiring our people to work overtime, but it was the result of a continuous honing of the management decision-making process. The Office of the General Counsel has also been taking dramatic steps in the field to try and cope with the budget situation. You will be hearing directly from the Deputy General Counsel on this point.

Notwithstanding the problems, our case production efforts have met with considerable success. We project that during FY'82, with improved management procedures in effect, the Authority will close significantly more cases than in FY'81 even though we will have had a smaller work force. Even though this increased productivity rate will continue for FY'83, case filings will continue to exceed closings. This means that by the end of FY'83, even if we maintain our excellent rate of the first half of FY'82 and if we receive the FY'83 budget recommended by OMB, we will still have a total backlog of some 1,132 cases. This is the equivalent of almost 2 years' output. It goes without saying that labor dispute cases not decided on a timely basis will have a negative effect on the efficiency of Government operations. This means that we must redouble our efforts to accomplish increased continuing production of cases.

Following comments by our Deputy General Counsel, I will be pleased to answer any questions.

SUPPLEMENTAL STATEMENT OF RONALD W. HAUGHTON

Mr. Chairman, your staff has raised with us the matter of consolidating authority and responsibility for administrative functions of our agency in one individual appointed by the President by and with the advice and consent of the Senate. We concur with this approach.

There is no question but that our experience as Members of the Federal Labor Relations Authority in the past 3 years has led us to the conclusion that it would be more efficient to manage the internal administrative affairs of the agency by a single individual than through what is now effectively a committee system. So long as the management of internal administration, such as financial management, personnel management, procurement and office services, is vested equally in the Chairman and Members, it will ultimately continue to rest with a "committee." Management of the internal administration of the agency would be far more effective and efficient if the responsibility and authority for such management were assigned to a single individual.

We believe that the most appropriate way to resolve this matter is to assign responsibility and authority for the management of internal administrative matters to the Chairman of the Authority. I note here that I do not regard this conclusion as self-serving, because it is my personal belief that the President has the authority under our Statute to designate any five-year Member as Chairman.

We propose to assign administrative management to the Chairman. We ask your consideration of this proposal. We would propose to place a like request to the Authority's other Appropriations and Oversight Committees in the Senate and the House of Representatives.

We also would like to request the legal advice of the Department of Justice's Office of Legal Counsel and the Administrative Conference of the United States as to the effect of such an assignment under the provisions of our Statute.

Assuming that there are no legal impediments to our proposed course of action and assuming that there are no objections on the part of the committees, we shall institute it forthwith.

STATEMENT OF S. JESSE REUBEN

As the Deputy General Counsel of the Federal Labor Relations Authority, I appreciate this opportunity to appear before you to present the budget request for the Office of the General Counsel for Fiscal Year 1983. I am happy to be here after a second full year of operation of the Office of the General Counsel and to be able to report to you a year of significant achievement in the timely processing of our caseload and keeping costs to a minimum.

A total of 183 full-time permanent positions are requested for the Office of the General Counsel in Fiscal Year 1983, a reduction of seven positions from the total of 190 full-time permanent positions requested for the Office of the General Counsel in Fiscal Year 1982. The budget request for the Office of the General Counsel for FY 1983 totals $7,686,000, representing an increase of $1,104,000 over the Continuing Resolution funding of $6,582,000 which is anticipated for Fiscal Year 1982. The total of $6.582 million does not include a 1982 pay act supplemental, currently estimated at $361,000 for the Office of the General Counsel. The total net allocation for Fiscal Year 1982 for the Office of the General Counsel is $6,943,000, and the net requested increase of $743,000 in Fiscal Year 1983 represents an increase of approximately 11%. With this increase, the Office of the General Counsel will be able to fund 167 of the total of 183 positions authorized by OMB.

The increase of $743,000 is required for three purposes --

1) to cover the total costs of the pay raise for Federal employees approved by the Congress last October;

2) to cover the total costs of raising the "pay cap" for senior Federal employees, approved by the Congress effective January 1982; and

3) to fully fund the minimal travel requirement of $600,000 for the Office of the General Counsel. In this regard, it should be noted that the travel budget for the Office of the General Counsel was cut by 73.2 percent at the beginning of Fiscal Year 1982, and that the restoration of funds to raise the

travel budget to $600,000 in FY 1983 still constitutes a reduction of 47.6 percent from the original FY 1982 travel budget.

Each of the three costs outlined above is absorbed in the Fiscal Year 1982 allocation to the Office of the General Counsel of $6,943,000 which, as noted above, includes a 1982 pay act supplemental of approximately $361,000 for the Office of the General Counsel.

As a part of the normal budget process, we have already submitted to you a detailed written Fiscal Year 1983 budget justification. With your permission, I would like to touch briefly on some of the significant highlights of that justification and make a few other observations as well.

In Fiscal Year 1983, the unfair labor practice and representation case intake combined, all of which case intake is initially processed in our regional offices, is projected to increase to a total of at least 8,181 cases, the highest level ever, and an increase of 18.3% over the Fiscal Year 1981 total intake of representation and unfair labor practice cases.

As you know, the Office of the General Counsel has no real control over the size of its case intake. Before one might imagine that our case intake projections for Fiscal Year 1983 are exceedingly high, it should be noted that last year our actual case intake exceeded estimates contained in our Congressional justification by 12%, or by over 700 cases. A total of 7,752 unfair labor practice charges are projected to be received in Fiscal Year 1983, an increase of nearly 20% over actual 1981 case intake. A total of 429 representation cases are projected to be received in Fiscal Year 1983, equal to the projected intake level in Fiscal Year 1982 and a decrease of 8.7% from actual Fiscal Year 1981 case intake.

Because of the importance of the Office of the General Counsel in the unfair labor practice and representation casehandling functions of the Federal Labor Relations Authority, I would like to take this opportunity to review the responsibilities of this Office. The Office of the General Counsel, which has direct statutory authority over all of the Agency's Regional Offices, is responsible for investigating all unfair labor practice charges filed under the Federal Service Labor-Management Relations Statute and under the Foreign Service Act of 1980. As required, the Office of the General Counsel exercises final authority over the issuance and prosecution of complaints arising under these Statutes, including the review of all appeals of refusals by Regional Directors to issue complaints. The Office of the General Counsel is responsible for the investigation and initial disposition of all representation petitions; for supervising or conducting elections concerning the exclusive recognition of labor organizations; for certifying the results of these elections to the parties; and for conducting hearings in representation cases to resolve disputed issues.

I fully subscribe to the intent of Congress set forth in the Statute that collective bargaining in the Federal sector is in the public interest and contributes to the effective conduct of the Government. I have a firm belief in the collective bargaining process and a belief that proper implementation of this Statute will indeed result in the increased efficiency of Government operations. The long-range goal of the Office of the General Counsel is to provide a fair balance between the Federal Government's need to maintain the efficiency of its operations and the rights of Federal employees to participate in the collective bargaining process. The Office of the General Counsel encourages all persons alleging unfair labor practices and persons against whom such allegations are made to meet and, in good faith, attempt to resolve such matters both prior to and subsequent to the filing of unfair labor practice charges. The Office of the General Counsel strives to protect the rights of individual employees in their relations with labor organizations and to safeguard employee rights by investigating, resolving and prosecuting (when necessary) charges alleging violations of employee protections under the Statute. The Office of the General Counsel defines the extent to which employee representatives may participate in decisions affecting employment conditions, and provides orderly and peaceful procedures for preventing proscribed interference by either labor or management with the legitimate rights of the other.

The General Counsel is directly responsible for exercising general supervision over all employees in the Regional Offices and for ensuring the effective and efficient operation and administration of the Agency's nine Regional Offices. The General Counsel and his executive staff provide advice, assistance and review of all phases of field office performance to ensure adherence to case handling standards. The detailed functions of the Office of the General Counsel and the structure of the Office are described in the budget justification materials previously submitted to the Committee.

The following brief look at the case flow of the Office of the General Counsel focuses on its principal challenges in processing its caseload. It should be noted that we have no control over our caseload and must respond to all inquiries concerning posssible violations of the Federal Service Labor-Management Relations Statute. In each of its nine regional offices and three sub-regional offices, the Office of the General Counsel has implemented both an informal and a formal screening process which provides technical assistance to the clientele and thereby eliminates in many instances the filing of cases which clearly involve issues outside the parameters of the Statute.

When an unfair labor practice charge is filed, it is investigated and, if found to be meritorious, the parties are encouraged to settle without further action. If settlement cannot be obtained, a complaint is issued and a hearing is held before an Administrative Law Judge. Settlement efforts are encouraged constantly, and voluntary settlement is often obtained after the issuance of complaint and prior to holding the hearing. In Fiscal Year 1981, the total settlement rate for the Office of the General Counsel reached a level of 88.5%, its highest level ever. A recent cost analysis determined that a decrease of one percent in the total settlement rate for meritorious cases could result in the eventual cost to the Office of the General Counsel of more than $110,000 by requiring additional work in processing its caseload to final resolution.

Cases found, after full investigation, to be without merit are either withdrawn by the charging party or dismissed. The decision of the Regional Director in refusing to issue complaint is appealable directly to the General Counsel.

At this point I will divide my statement into three major sections --

First: FY 1981 -- a review of the highlights of where we have been;

Second: FY 1982 -- a look at where we are; and

Third: FY 1983 -- a preview of what lies ahead and where we are going.

Accomplishments in FY 1981

In Fiscal Year 1981, a total of 6,918 new cases were received, an increase of 24.2 percent over the total of 5,570 new cases received in Fiscal Year 1980. Included in the total of 6,918 new cases received in Fiscal Year 1981 were 6,448 unfair labor practice charges, representing an increase of 30 percent over the total FY 1980 intake of 4,955 cases. The increase in case intake seen through the end of Fiscal Year 1981 is the result of a combination of five factors, outlined below --

First, increased awareness by the clientele of the existence of the Office of the General Counsel, spread by technical assistance efforts and knowledge of our function.

Second, expeditious case processing provided by the Office of the General Counsel -- in approximately 90 percent of all cases, a decision is made on the merits of the unfair labor practice charge within 60 days of the filing of the charge.

Third, the Office of the General Counsel encourages voluntary settlement of the charge, once merit is determined. In Fiscal Year 1981, 88.5% of all meritorious cases were settled voluntarily prior to the holding of a hearing. Further, roughly two-thirds of all cases were won by the General Counsel if settlement was not obtained. The high settlement rate is to a great extent the result of clientele confidence in the professional judgement of the staff of the Office of the General Counsel in determining whether a particular charge is meritorious. In this regard, statistics verify that, once the Regional Office determines that a charge has merit, the determination ultimately is sustained in 95% of all cases.

Fourth, the Office of the General Counsel offers an accessible, cost-free mechanism to the parties to resolve disputes. The Office of the General Counsel assists the parties in their bargaining relationships by its involvement in the resolution of their disputes.

Fifth, the results of previous activity result in increases in case intake. It should be recognized that, contrary to common perception, the increased issuance of Authority decisions under the Statute will not result in a decrease in caseload generally, nor in a decrease in the issuance of complaints and concomitant litigation. Because many of the decisions issued by the Authority will of necessity deal with complex issues, it can be anticipated that the parties will, through the use of unfair labor practice charges, attempt to explore the full meaning of these decisions. Both management and unions will undoubtedly test the outer limits and parameters of the Authority decisions. Their respective actions will result in an increase in cases and in litigation. Moreover, it is this type of case which by its very nature does not readily respond to settlement efforts. This assumption, although contrary to some generally held perceptions, is not based on idle or unsupported speculation. An examination of similar experience in the private sector under the National Labor Relations Act will confirm this phenomenon. It is for this reason that case intake is projected to sustain the level of increases seen in the past two years. Labor relations activities affecting the operation of the Federal Government and involving Federal employees are the responsibility of the Federal Government. Were the Federal Government not to be involved in developing and perpetuating an effective labor relations program, severe consequences could result -- reduced levels of productivity and patterns of activity disruptive to the normal operation of the Federal Government.

With respect to the unfair labor practice charges now being filed, two trends are noticeable -- first, charges are now being filed with explore the full meaning of Authority decisions; and second, charges are now being filed which involve disputed facts and the credibility of withnesses, in contrast to earlier charges which involved solely questions of statutory interpretation. These two types of cases are the most difficult in which to obtain voluntary settlement. However, voluntary settlement will continue to be obtained in more than four of five cases which are determined to be meritorious. As a result, at most only 7.4 percent of all unfair labor practice charges filed will need to be brought before the Authority for decision. The peaceful resolution of labor disputes through the voluntary settlement process encouraged by the Regional Offices remains the most desirable alternative of dispute resolution. When long delays are built into our case handling processes, the positions of the parties become hardened and voluntary settlement is more difficult to achieve. For this reason, direct and substantial benefits accrue to the efficient operation of the Federal Government when unfair labor practice charges are investigated and decided with reasonable expedition.

Fiscal Year 1981 was a year of significant accomplishment for the staff of the Office of the General Counsel. It is because of the very high productivity achieved by the staff again last year that we are confident we will be able to successfully meet the demands of the difficult years ahead. The following four factors are those which we consider the most important in the overall accomplishments of the Office of the General Counsel during Fiscal Year 1981 --

First, the extremely high percentage of meritorious unfair labor practice cases in which voluntary settlement was obtained, thereby avoiding the expense and disruption to labor-management relations which litigation involves;

Second, the very high level of productivity sustained in the Office of the General Counsel, enabling us to process the greatly increased volume of case intake in a timely manner;

Third, the successful implementation of a comprehensive and sophisticated system of statistical reporting, productivity measurement and performance evaluation; and

Fourth, the ability of the Office of the General Counsel to reduce its costs to a level of roughly $1,100 per case.

It is expected that each of these accomplishments will be sustained or improved upon in Fiscal Year 1983.

In Fiscal Year 1981, 37.5 percent of all unfair labor practice cases were determined to have merit after full investigation. This factor reached this level during the last half of the fiscal year, in conjunction with the tremendous surge in the number of new cases being received in the Regional Offices. As I stated earlier, voluntary settlement was obtained in 88.5 percent of all meritorious cases in Fiscal Year 1981. In 56.5 percent of all meritorious cases, voluntary settlement was obtained prior to the issuance of complaint. As a result of our settlement efforts, only 5.2 percent of all unfair labor practice cases filed needed to be brought before the Authority for decision, slightly below the Fiscal Year 1980 factor of 5.8 percent. For this reason, we believe that we can see some direct and substantial benefits to the efficient operation of the Federal Government when we have done our work with reasonable expedition.

The concept of "reasonable expedition" leads me to a second significant accomplishment of the Office of the General Counsel in Fiscal Year 1981 -- the sustained very high level of staff productivity. Estimated productivity per position and in total increased significantly in Fiscal Year 1981 over initial estimates contained in last year's budget justification. Depending on the type of activity, productivity estimates for Fiscal Year 1983 range from 57 cases per position to 99 cases per position, with increases ranging from six to nine cases per position over current levels of productivity. Despite the loss of seven positions in Fiscal Year 1983 from the Fiscal Year 1982 total, the Office of the General Counsel is projecting to increase its number of dispositions in every workload category over comparable Fiscal Year 1982 totals. The high levels of productivity enabled the Office of the General Counsel to maintain a low level of backlogs throughout Fiscal Year 1981, despite sharp increases in case intake seen during the fiscal year.

The third factor which I consider significant in the overall accomplishments of the Office of the General Counsel is the design and successful implementation of a standardized statistical reporting system. This system is used for the purpose of tracking, projecting and managing the caseload of the Office of the General Counsel. It also is the basis of a monthly performance analysis of each Regional Office, which is provided to the regional staff for their use and benefit. Currently, this system is maintained manually, although a preliminary effort at automating the system was undertaken during the last half of the fiscal year.

Finally, the Office of the General Counsel has held its costs to a very low level. The combination of high productivity, efficiency, stream-lined operations and a minimal number of positions allocated to management activities has enabled the Office of the General Counsel to keep its costs to a minimum, and to reduce its projected costs in Fiscal Year 1983 at the same time that the number of cases being processed is projected to increase. Within the Office of the General Counsel, the combination of the increases in our level of funds for Fiscal Year 1983 and the projected increase in staff productivity will result in an actual decrease in the costs of processing our individual cases. In Fiscal Year 1983 the average cost per case action is projected to drop to a total of $1,060.00 for each of the 7,250 distinctive case actions projected to be taken by the Office of the General Counsel. This decrease in actual case processing costs includes all increases required for within-grade pay increases and career-ladder promotions, and the increased costs of per diem and other travel-related items. These cost factors include also all costs for library subscriptions, office supplies, desk-top supplies, photo-copy costs, court reporting services, staff training, word-processing rental costs, etc, as well as all executive, managerial, supervisory, administrative, docketing, library and clerical costs for the Office of the General Counsel. For further details on these cost factors, please refer to the detailed budget justification previously submitted. In this period of inflation and increased costs, we have actually been able not only to hold the costs of a case action stable, but to reduce markedly our case processing costs.

Current Status -- Fiscal Year 1982

The current status of the Office of the General Counsel can best be described in two separate contexts -- the financial status of the Office, and the caseload status of the Office. As you can well imagine, this has been a difficult year because of the drastically reduced levels of resources with which we have had to deal. Briefly, I would like to retrace with you the financial status of the Office of the General Counsel and the steps which we have taken during the year.

At the beginning of the fiscal year, a budget level of $8,171,000 was allocated to the Office of the General Counsel. In order to remain within this funding level, the following restrictions were imposed --

1) The previously existing moratorium on the purchase of furniture was continued.

2) A halt was declared in all training requiring the expenditure of funds.

3) The installation of the computerized legal research system for the Regional Offices was postponed indefinitely.

4) The full automation of the statistical reporting system for the Office of the General Counsel was deferred indefinitely.

5) A halt in overtime was declared.

6) Travel plans were sharply curtailed, with projected travel expenditures restricted to a total of $600,000. This total represented a cut of 47.5 percent from the approved travel plan of $1,144,000 contained in the initial budget submission.

7) The procurement of all miscellaneous services for the Office of the General Counsel was sharply curtailed;

8) Five positions were required to be held vacant, reducing the financeable staff-years for the Office of the General Counsel to a total of 192 positions.

9) A halt was declared on all SES bonus payments, on quality step increases for superior performance, and on cash awards for special or exceptional performance.

10) All promotions were halted, except for those employees in a career-ladder status or for those with exceptional performance evaluations.

11) All travel was halted in November and in the last two weeks of December. All unfair labor practice hearings, representation hearings and representation elections were postponed during these periods.

The halt in travel had a devastating effect on the Office of the General Counsel. Productivity indices for November fell roughly 50% below the October indices. The systems which were in place for caseload processing were fully taxed, with resultant backlogs that will require several months to eliminate. As a result of the negative impact of the total travel halts, in order to achieve mandatory reductions in travel, we have decided to allow our Regional

Offices to set their own halts in travel as required for the remainder of the fiscal year in order to give each Regional Office the maximum degree of flexibility in coping with the mandated severe reductions in our travel budget. Under the initial Continuing Resolution passed by the Congress, the allocation for the Office of the General Counsel was reduced to a total of $7,866,000. In addition to the steps outlined above, three additional steps were required to meet this reduced funding level --

1) Cancel the rental agreement for some word-processing equipment and photo-copy equipment.

2) To save space rental costs, close the Kansas City Office and shift the regional office location to Denver, where a sub-regional office was already located. This decision was made based on the pattern of case intake within the Region during the past two years.

3) Separate 12 employees (6.3 percent of our staff) through a reduction-in -force action. Included in this reduction-in-force action was the separation of five supervisory employees in the regional offices, resulting in the partial dismantling of the first-line supervisory structure in the Regional Offices.

Under the third Continuing Resolution, the funding level for the Office of the General Counsel was further reduced to a level of $6,943,000, which includes provision for a pay supplemental. At this reduced level, the Office of the General Counsel was required to take the following seven additional steps --

1) Separate six additional Regional Office employees through a reduction-in-force action.

2) Dismantle the SES Assistant General Counsel structure in the immediate Office of the General Counsel, resulting in the reassignment of the two SES Assistant General Counsels for Field Management to two vacant Regional Director positions in the field.

3) Three clerical positions were reasssigned from the immediate Office of the General Counsel to a regional office.

4) Hold ten additional positions vacant through the remainder of the fiscal year.

5) Reduce travel by an additional $293,000 below the revised level of $600,000. This second reduction resulted in a total decrease in travel in Fiscal Year 1982 of $837,000 or 73.2 percent from the initial planned level.

6) The number of unfair labor practice complaints scheduled for hearing was sharply curtailed, yielding a savings of $184,000 in the cost of the reporting service contract for hearings.

7) Courtroom space in Boston, Dallas and Honolulu was relinquished.

I want to assure you, Mr. Chairman and distinguished Members of this Committee, that in accordance with the spirit of the budget restrictions with which we were faced, each of the measures outlined above have been implemented and we will remain within our funding restrictions. It should be noted, however, that of the revised allocation of 190 full-time permanent positions made available to the Office of the General Counsel for Fiscal Year 1982, with the budgetary restrictions imposed upon us only 158 positions will be funded by the end of the year. Consequently, the financeable positions in the Office of the General Counsel will have been reduced by 16.8 percent during the course of this year.

While these steps have had a negative impact on us, I want to assure you that every step was taken with the primary goal of minimizing the adverse impact of each action on the ability of the Office of the General Counsel to fulfill its responsibilities. We are proud of the staff's commitment to the goals which I outlined for you earlier, for the Office of the General Counsel has remained a viable organization.

To summarize the reductions which have been made, the size of the staff of the immediate Office of the General Counsel has been reduced by one third, 33 percent. The size of the Office of Appeals has been reduced by 21 percent and the size of the Regional Office staffs has been reduced by 13 percent. The supervisory structure in the field has been reduced by 39 percent, and at the same time the managerial structure in the headquarters unit has been reduced by 25 percent. These cuts have placed an increased burden on the remaining staff to ensure that their work is of the highest quality, for the degree of guidance and review previously provided cannot be sustained -- even for a constant caseload, much less for an increased level of case intake.

With respect to the current status of our caseload, in view of recent adverse economic conditions, and in line with similar recent experience in the private sector, our case intake has fallen by roughly 19.7 percent through the first six months of this fiscal year, in comparison to case intake through the same period in Fiscal Year 1981. At the same time, case intake through the first six months of this fiscal year is equal to case intake through the same six month period in Fiscal Year 1980. In conjunction with the decrease in case intake, through the first six months of this fiscal year, our total settlement rate has increased sharply, rising to a level of 91.5%. The combination of the high settlement rate and the drop in case intake have enabled the Office of the General Counsel to maintain a current posture with respect to the processing of its caseload, despite the very unsettling nature of the budget cuts which we have taken.

With the projected upsurge in the economy, we are looking for a return to the increasing trend in our levels of case intake later in this fiscal year and continuing on into Fiscal Year 1983.

Preview of Fiscal Year 1983

Again for Fiscal Year 1983 I want to divide my remarks between the budget requested and the impact of that budget request on the status of our caseload. A total of 183 positions are requested for the Office of the General Counsel, a reduction of seven positions from the total of 190 positions authorized for the Office of the General Counsel in Fiscal Year 1982. A total of $7,686,000 is requested for the Office of the General Counsel, which will enable the Office of the General Counsel to fund 167 of the total of 183 positions authorized by OMB. Outlined below are the planned levels of expenditures, by object class, for the Office of the General Counsel --

Salaries and Benefits	$6,366,000	82.8%
Overtime	0	-
Performance Awards	0	-
SES Bonus Payments	0	-
Travel and Transportation of Staff	600,000	7.8%
Shipment of Goods	0	-
Telephone Costs	110,000	1.4%
Reproduction Equipment Rental	19,000	0.2%
Word-processing Equipment Rental	91,000	1.2%
GSA Car Parking Space Rental	4,000	0.1%
Printing & Reproduction (Ballots, etc.)	37,000	0.5%
Repair Contracts (on owned equipment)	65,000	0.8%

Mandatory Health Service Contracts..............	11,000	0.1%
Manpower Contracts..............................	3,000	0.1%
Reporting Service Contracts.....................	250,000	3.3%
Training..	0	-
Office Supplies ($5,000 per location)...........	55,000	0.7%
Library Subscriptions ($7,000 per location)......	75,000	1.0%
Equipment.......................................	0	-
Total Costs - Office of the General Counsel	$7,686,000	100.0%

The first priority in the FY 1983 budget is to fund the positions authorized for our use.

I have gone into great detail concerning our budget in order to assure you, Mr. Chairman and other distinguished Members of this Committee, that every dollar appropriated for the Office of the General Counsel will be dedicated to the furtherance of the Agency's mission. As you can see, we have continued the ban on the procurement of all equipment. No provision is made in this budget for the complete automation of our case tracking system or for the installation of the legal research system in the regional offices. In fact, all of the moritoriums put into place this year will be continued in Fiscal Year 1983. Our travel budget is again restricted to a level of $600,000. No funds are available for the payment of overtime, nor is funding projected to be available for the payment of SES bonuses, the approval of quality step increases or the granting of cash awards. Again in Fiscal Year 1983, no funds are available for the training of our employees, nor are funds available for the rental of additional word-processing equipment. The increases which we are requesting are intended to provide for the full funding of 167 positions, which are necessary for the Office of the General Counsel to carry out its responsibilities. The increase in the budget for Fiscal Year 1983 indicates the important role that the Administration expects the Office of the General Counsel to play in ensuring the continued efficient functioning of the Federal Government. It is important that we be adequately funded to meet the challenges ahead.

I wish to stress the critical role that the availability of adequate travel funds play in the effective implementation of the Federal Service Labor-Management Relations Statute to all segments of the Federal community. The resolution of almost every charge and petition filed with the Office of the General Counsel involves a mandatory expenditure of travel funds.

No viable alternative exists to a face-to-face investigation in the conducting of a complete inquiry regarding each case. Reduced travel funds will negatively affect the voluntary settlement of cases, with an adverse impact on the parties, on the effective operation of the Federal Government and on our own ability to process additional cases.

The adverse affect of a lack of travel funds on our case processing is demonstrated by our recent experience when we halted all travel in November in order to meet the constraints of the first Continuing Resolution passed by the Congress. A total of only 404 dispositive actions were taken in November, the lowest monthly total for the Office of the General Counsel since December 1979. The monthly productivity indices for the Office of the General Counsel fell by 50 percent in November from the October factor and fell by over 60 percent from the very high factors seen at the end of Fiscal Year 1981. As a result of the drop in the number of dispositive actions taken, our backlog of cases increased to a level higher than at any time since February 1980. It is essential that we have travel funds sufficient to enable us to process our caseload.

The essentiality of our travel is such that, because of a shortage of travel funds in Fiscal Year 1982, we were forced to cease the conducting of representation elections by Authority agents. Rather, we were forced to revert to the less desirable practice of supervising representation elections which had to be conducted by the staff of the involved Agency. The problems associated with our lack of travel funds to conduct representation elections are highlighted by our being unable to conduct the representation elections in Panama because of a shortage of $30,000 in travel funds. Failure to conduct a proper election in so volatile an international situation clearly could have serious diplomatic consequences. Officials in the Defense Department acknowledge that we have the necessary expertise to conduct the representation elections, and that our involvement is preferable to officials of the Defense Department conducting the election under our supervision.

In looking at our Fiscal Year 1983 budget, I want to briefly touch on two areas which concern the Office of the General Counsel greatly. First, the Office of the General Counsel is committed to the principals of equal employment opportunity. At the end of Fiscal Year 1981 we suspended all recruitment efforts. We continue to count on employee turnover, together with approval of a pay cost supplemental, to enable us to avoid a furlough of our remaining employees. With our inability to fund all of our allocated positions in Fiscal Year 1983, it is doubtful that we will be able to reinstate recruitment programs which we once had in effect. However, we are proud our EEO record to date and pledge to continue to assure that it is sustained.

Second, it should be noted that we strongly believe that staff training is an essential component of our success and that it has played a significant role in the sharp reduction of our backlogs. As indicated previously, we halted all staff training at the end of Fiscal Year 1981. Unfortunately, this moratorium will continue through the end of Fiscal Year 1983. Training is essential in maintaining the quality of our staff in the complex field of labor-management relations and should be an integral part of our career development process. As a result of the budget cuts which we have had to sustain, we have had to restrict our upward mobility program, and postpone all commitments to training previously made under that program. We cannot continue to indefinitely postpone employee training, although at this time it is uncertain as to when we will be able to reinstate an employee training program. While we have not funded any training for our staff since the beginning of Fiscal Year 1982, in keeping with both the spirit and the letter of the moratorium which we put into place, you may be assured that our commitment to training remains, and we will do the most that we can as funds become available.

As I stated earlier, we are committed to keeping the costs associated with the processing of our caseload to a minimum. In Fiscal Year 1983, we project that our processing costs will fall to an average of $1,060 per case, compared to the Fiscal Year 1982 factor of $1,204. This reduction of $144, or 12 percent, includes the costs of within-grade increases, promotion costs and all other mandatory increases contained in our Fiscal Year 1983 budget request. Reductions in case processing costs have been made in each workload category. Travel costs have been reduced to a level of roughly $100 per case. The salary costs for the Office of the General Counsel average slightly less than $900 per case action -- somewhat below that total for the initial investigation and disposition of our caseload, and somewhat above that total salary cost for litigation, the conducting of elections and the holding of representation case hearings. In total, costs associated with the initial disposition of our caseload fell below $1,000 per case, while the costs associated with litigation and the holding of representation elections and hearings remained below a level of $2,000 per case. These cost factors include all costs borne by the Office of the General Counsel, including those costs associated with executive, managerial, supervisory, professional, administrative, docketing, library and clerical functions, and all court reporting service costs associated with the Office of the General Counsel, the Office of Administrative Law Judges and the Authority. As stated earlier, these cost factors also reflect the impact of the continued ban on the purchase of all equipment, the moratoriums on overtime and training, and the sharp reductions in travel and other non-salary related areas.

In reviewing the status of the caseload for the Office of the General Counsel in Fiscal Year 1983, I see two principal challenges --

first, to sustain our high rate of voluntary settlement; and
second, to cope with our greatly expanded case intake.

With regard to the first challenge, it has always been one of the principal objectives of the Office of the General Counsel to maintain the highest possible level of voluntary settlements. Success in meeting this first challenge is essential if we are to meet the second. The earlier that voluntary settlement of a dispute is obtained, the more time our agents can devote to other cases. Success in sustaining a high rate of settlement significantly reduces the adverse impact of labor-management disputes between the Federal Government and its employees. The timely processing of cases is also essential in obtaining a high voluntary settlement rate because the positions of the parties tend to become more fixed with the passage of time and the parties become less amenable to negotiation and voluntary settlement efforts. In our brief experience, we have noted that our voluntary settlement rate has increased in conjunction with the sharp reduction in our backlogs, to the point where voluntary settlement was obtained in over 88 percent of all meritorious cases in Fiscal Year 1981. With the build-up of backlogs projected through the end of Fiscal Year 1983, the total settlement rate is projected to drop slightly below this level.

Coping with the build-up of backlogs, resulting from our expanded case intake and from our reduced level of staff, is the second great challenge that we face. In contrast to Fiscal Year 1980, when dispositive actions taken on our caseload exceeded case intake, case intake exceeded the number of dispositive actions taken in Fiscal Year 1981. Because of the decrease in case intake through the first four months of Fiscal Year 1982, dispositive actions have once again exceeded levels of case intake, enabling the Office of the General Counsel to reduce its backlogs and its total pending caseload. However, with the projected increases in the levels of case intake later in the year and in Fiscal Year 1983, case intake is again projected to exceed the number of dispositive actions taken, with sharp increases in the level of our pending cases and in our backlogs. Because we are already sustaining a very high level of productivity, our ability to reduce our backlogs is dependent upon a reduction in new case filings or upon staff increases, neither of which is likely and neither of which is projected in the Fiscal Year 1983 budget submission. As a result, in Fiscal Year 1983, backlogs are projected to increase just as median processing time-frames are projected to increase.

At the end of Fiscal Year 1981, a total of 1,250 cases were backlogged in the Office of the General Counsel, a slight increase over the Fiscal Year 1980 total of 1,136 backlogged cases. Once backlogs begin to develop, they compound themselves and become very difficult to eliminate. Thus, at the end of Fiscal Year 1983, as many as 7,427 cases could be in an actual backlog status, nearly six times the Fiscal Year 1981 total. Backlogs will range from levels of eight months to one year by the end of Fiscal Year 1983, again roughly six times the two-month backlog of cases pending in the Office of the General Counsel at the end of Fiscal Year 1981. This projected status of cases is consistent with statements made to this Committee in the testimony of the General Counsel last year. For more specifics on the increases in our backlogs, please refer to the workload summaries submitted in the detailed budget justification.

Conclusion

This concludes my formal statement in support of the budget request for the Office of the General Counsel for Fiscal Year 1983. We are very grateful for your support in the past and look forward to your continued support in the future. I have attempted to explain in detail the impact of the budget cuts which we have taken this year, both in terms of the effect on the staff of the Office of the General Counsel and on our ability to fulfill our mission. With the support and assistance which this Committee has provided in the past, we will continue to attempt to resolve Federal sector labor-management disputes in a timely manner, thereby minimizing disruptions to the efficient operation of the Federal Government. You may be assured that the staff of the Office of the General Counsel will continue to strive to meet the challenges which we are certain to face. I thank you for your attention and am ready to respond to any questions which you might have.

STATEMENT OF LEON B. APPLEWHAITE

I am as dismayed as you that any alleged improprieties may have occurred with the agency's acquisition of furniture.

However, I would be remiss in my responsibilities to you if I did not point out that shortly after my confirmation in August, 1979, I was informed that my primary function was to concentrate on case decisions. At this particular time, the backlog of executive order cases was well over 1,000. Similarly, cases under the Statute were accumulating in record numbers. Also, at this time, we were faced with numerous issues emanating from the labor-management provisions of the Panama Canal treaties.

Therefore, I directed all of my energies to reducing the overwhelming backlog of cases and resolving other case-related issues. I was assured that administrative matters were being properly handled.

Also, at the time I joined the agency, I was informed that furniture for the four presidential appointees had been ordered, received and warehoused. In addition, a permanent location for the agency's headquarters had been identified. Finally, prior to my appointment, essential personnel, who were responsible for these and other procurements, were already hired and functioning. My staff assistant tried repeatedly to see the furniture or get pictures or a description from various agency personnel, but was advised that no pictures were available and that the furniture was crated in the warehouse and could not be seen.

In the summer of 1981, additional furniture was ordered to accommodate the agency's national headquarters staff. These purchases were made in anticipation of the agency's move to its current location in October of 1981. I was informed that all such procurements were in compliance with GSA regulations. Similarly, I was informed that the allocation of office space and its proposed utilization had been approved by GSA.

While I too am concerned over the amount of furniture that the agency has been required to excess, I have been informed that it is a direct result of severe cuts in our budget. Just prior to our move, it was projected that our professional complement would have to be reduced by approximately 40. This was accomplished through attrition and a reduction in force. Accordingly, our space requirement was reduced by approximately 7,000 square feet. Unfortunately, furniture for these 40 positions had been ordered and received and ultimately had to be excessed.

My minimal involvement in the agency's administrative matters in the past has changed dramatically. After I learned of the furniture procurement problem, I immediately appointed a three-member team which investigated the procurement procedures and prepared a written report with recommendations which I fully adopted. Similarly, I have outlined substantive changes in our method of operation in an effort to conserve resources.

BUDGET REQUEST

Mr. Haughton. Thank you, and I have given a copy to the court reporter.

My associates, Mr. Frazier and Mr. Applewhaite, members of the Authority, and Mr. Jesse Reuben, Deputy General Counsel—have you met him?

Senator Abdnor. Yes.

Mr. Haughton. We come before you today at a time when the budgetary requirements of our agency are at a critical stage.

For fiscal year 1982 we started at an OMB proposed budget level of $16,812,000. As a result of the application of successive cuts of 12 and 4 percent we are restricted currently to an annual expenditure rate of $14,203,000. This has required us to reduce our national and regional staffs by some 47 persons out of 351, and we still face the potential of a significant furlough if we do not get additional funding to bring the net down to 12 percent.

Now, we have a request for a supplemental for this year, which has been approved by OMB, of some $645,000, but I will not mention that any more at this point.

Besides our staff reductions we have cut back by approximately 80 percent on travel for basic mission functions, such as investigation and prosecution of unfair labor practices, and conducting of representation cases. Recently, we held some very sensitive elections in Panama. This was a continuation of a previous commitment to conduct elections there, at the request of both DOD and all the unions and our embassy. We found we simply could not go down to conduct the elections. We asked DOD to do it, and we supervised. It did go well, but it was contrary to normal procedure, and with the help of DOD we were able to work it out. These are fiscal year 1982 matters.

I mention them to show that even with these constraints we are making it but OMB looked at this and raised our budget for fiscal year 1983 to $15,745,000. This reflects a recognition that this is our minimum need to meet basic requirements.

To summarize, our current strength is 304 persons. In 1983, OMB has authorized 327 persons, but they have funded for 312. So that is about 8 persons more than in the current year.

We know that the caseload cannot endlessly justify additional resources, but that is not the issue here. We are simply seeking a minimum resource level to do our job. The budget approved by OMB represents operational minimums.

MANAGEMENT IMPROVEMENTS

We have already instituted substantial management changes. We have cut out one whole level of case processing. We have increased productivity without requiring our own employees to work overtime. The fact is we have, during January through March 1982, produced 144 cases, even though we had the RIF's, while in January through March 1981 we produced 61 cases. We accomplished, with management changes, an increase of 136 percent in productivity.

We are proud of that, because we know that we cannot come back to ask for additional budget help. We have to do the job as managers. We have had some problems of administration. We are frank about this.

FURNITURE PROCUREMENT

The initial procurement of furniture for the members' offices was a critical problem. We are not happy with the way this was handled, but we were a new and small agency when this was undertaken. We had only one contracting officer. I am not an expert on procurement, neither are my colleagues, and we had some very bad problems there, and we make no excuse for them. We do, however, point out that this one procurement officer was under tremendous pressure. He was procuring furniture for our four separate locations in Washington—at the time, we did not even have a central location—and for regional offices in nine other areas throughout the country. Supplies and startup equipment of all sorts were required. Poor judgment was involved there. We have asked the help of the General Accounting Office to help us sharpen up our procedures, and to build into our procurement process maximum protection procedures to assure that these problems do not occur.

CASE HANDLING ACCOMPLISHMENTS

We are proud of the way we have handled our primary mission of case handling. We have issued some 800 unanimous decisions. There were two dissents, one nominal dissent on a procedural matter, and the other was a procedural type dissent on the recent PATCO strike. Even there, when PATCO did not meet the procedural requirements of the dissenting opinion, we ended up with a unanimous opinion revoking the collective bargaining certification of PATCO.

We are very happy with this kind of attention to the substantive matters of our case handling process, and of course we have increased productivity in recent months. We expect to increase it during the coming year.

I am skipping through some of this because I assume our formal statement will be made a part of the record.

Senator ABDNOR. Your entire statement will be made a part of the record.

Mr. HAUGHTON. Thank you, sir.

BACKLOGS IN FISCAL YEAR 1983

But even with our rate of progress on productivity during the first 3 months, if we receive the fiscal 1983 budget we have requested of $15,745,000, we project a total backlog of some 1,100 cases at the end of 1983. This will include some 900 case carried over from fiscal 1982, and at our current rate of activity, this is almost a 2-year output.

We know we cannot live with that. We have to do something on it. Regardless of the budget situation, we have a job to do. Our employees and staff are committed to do it. We know that cases at our level at the Authority, and this is without regard to the time that it takes to process them in the field, that are 2 years old have a very negative effect on the efficiency of Government operations and morale.

When I used to be an arbitrator in the private sector for some 20 years with Ford, I remember I had a large backlog at one time, and one of the union members said to me, "Ron, you have got to get these cases out. Our guys are used to people saying no to them. They want answers, and we want to know whether it is no or yes." In the Federal establishment parties are entitled to expeditious answers.

Our Office of General Counsel, through Mr. Reuben, the Deputy General Counsel, will have a separate statement.

I have not gone into the details of the Office of General Counsel, the prosecutor, before our quasi-judicial authority. All three of us will be happy to answer any questions, but before going into that, I would like to at least summarize my supplemental statement, which you have so kindly accepted into the record. Because it is not directly related to our budget request——

Senator ABDNOR. Well, in a way, it is.

Mr. HAUGHTON. You are right, sir.

SUPPLEMENTAL STATEMENT ON ADMINISTRATIVE SUPPORT

We feel it relates to more efficient operation and increased productivity.

Your staff has made some suggestions, and we thank them and Mr. Parkinson, in particular, for he has shown enough interest to come and see us. He has raised the question of consolidating authority and responsibility for administrative functions in our agency in one individual appointed by the President, with the advice and consent of the Senate. It sounds simple.

The literal language of our statute provides for a committee approach. We do not think it works. In 3 years, it has simply proved not to be efficient. We are all three trained as former abitrators and mediators, and it would not have worked this long if we had not had that background.

We thank Mr. Parkinson for raising this question. We believe that so long as the management of internal administration, such as financial management, personnel management, procurement, and office services is vested equally in the chairman and the members, it will ultimately continue to rest with the committee. You know the story, how did the camel get created. A committee did it.

We are just about to that point in our own perception, and it has been sharpened by our chat with Mr. Parkinson. We have looked at the way the National Labor Relations Board handles their affairs. We have not come up with exactly the same approach, but with a proposal we would like to present to you for your consideration in this committee. We would like to make a similar proposal to the Appropriations and Oversight Committees in the Senate and the House. As a proposal, we are suggesting that we would like to vest these administrative responsibilities with the chairman.

My colleagues and I are unanimous on this. Speaking now simply for myself, I happen to be chairman, I do not regard this as self-serving. My background before coming to Government was a professor of management, and I now know it by experience, that you cannot run a thing by committee. I feel very strongly that the President of the United States should be able to designate the chairman of an agency of the statutory nature of ours, especially when there is a 5-year appointment, when there is a complicated statute. I have a 5-year appointment.

The President will have an opportunity to make a 5-year appointment from his own party this coming July, which is practically tomorrow. So I am not talking about myself, but I am talking about an important functional approach, and we would like your committee to consider this. Since we have had such good advice from your top aide, Mr. Parkinson, we would like to keep in touch with him. We would like to report on our progress, and we would like to have a similar relationship with the other committees. We then have to check out the legalities. This is not a dragging of feet approach. We want to institute this thing as fast as possible.

The Office of Legal Counsel at the Department of Justice will give it high priority, but they could not get it out in 24 hours, in time for today, but we are talking about that kind of urgency.

That is a general summary, Mr. Chairman.

Senator ABDNOR. Mr. Reuben, do you have a statement?

Mr. REUBEN. Yes; I submitted a statement for the record, and I will highlight it.

I want to say that I strongly support the chairman's initiative here, his proposal to delegate to one Presidential appointee responsibility for the administrative functions of the Authority. The General Counsel of the Federal Labor Relations Authority supervises the regional offices, and prosecutes cases of the Authority, as a Federal prosecutor.

FISCAL YEAR 1983 BUDGET REQUEST FOR THE OFFICE OF THE GENERAL COUNSEL

The budget for the Office of General Counsel for 1983 is $7,686,000, which funds 167 financial positions. It does not fund all of the 183 positions requested for the Office of General Counsel. This represents an increase of $743,000 over the fiscal year 1982 budget, assuming we get the pay supplemental that the chairman mentioned previously.

Of the total, $6,943,000 is requested for salaries and benefits, which equals 83 percent of our total budget request; $600,000 is requested for travel, which is 8 percent of our budget request. This is travel related only to case processing, since we go out and investigate cases on the scene, take statements and affidavits from the parties, and without the travel money we cannot do our cases.

Under the 1983 budget, we will have to continue several restrictions already in place, which would mean no overtime, no SES bonuses, no performance awards, no training, no equipment. So it is a very austere budget at that.

The increase that we have been authorized for fiscal year 1983 is to cover the total cost of the fiscal year 1982 pay raise, the 4.5 pay raise to cover the raising of the pay cap for senior Federal people working for the Office of General Counsel, and to fund $600,000 for travel for the Office of the General Counsel.

I would note that the $600,000 represents a reduction of about 50 percent from the original fiscal year 1982 travel budget for the Office of the General Counsel, so it is not a huge travel budget by any means.

CASELOAD STATISTICS

The caseload statistics that we have experienced in fiscal year 1981 exceeded our projection by 700 cases. Actual case filings were 30 percent over fiscal year 1980.

We project that we will experience increased case filings next fiscal year, an increase of 18.3 percent. Despite a 30-percent increase in case intake, approximately 90 percent of all cases filed in regional offices in fiscal year 1981 were decided within 60 days. We attained that accomplishment by being able to get a voluntary settlement of the parties in 88.5 percent of our meritorious cases, which we think is a substantial accomplishment.

In other words, we were able to avoid litigation in all but 12 percent of all meritorious cases—in 88 percent of the time that we were able to get a settlement.

We have determined also that any drop in the settlement rate of 1 percent increases our case processing costs by $110,000. Any time we drop 1 percent, it is $110,000 in litigation costs, and other case costs associated with litigation.

In fiscal year 1981 we reduced our case costs to approximately $1,100 per case, which we feel is a substantial accomplishment.

FISCAL YEAR 1982 FINANCIAL SITUATION

With respect to our current financial situation in fiscal year 1982, as highlighted by the chairman, we were forced to RIF a substantial number of employees at high grade levels because of our money crunch during the fiscal year. Our agency is basically salary-oriented. We do not have any programs that we can cut and save dollars. We unfortunately have to go to salaries. That is it for our agency.

Our travel has been sharply curtailed, as I mentioned before, by 73 percent overall. We have a lot of concerns about next fiscal year, about being able to do our job, by not being able to train people properly.

As I said, the pay supplemental is a must for us, otherwise we will have to experience a 22-day furlough sometime this year without it. Basically, we feel that if we cannot do our cases, it will not help the Government, it will negatively affect labor management relations, which is our role in Government, to make a good labor management relations program, and to have the speedy resolution effective throughout.

RESTRUCTURING OF THE OFFICE OF ADMINISTRATION

With respect to the chairman's statement on the delegation of the administrative functions, let me add one more thing.

I agree that there is a need for a single firm hand accountable in the agency. The present arrangement, where three Authority members are collectively responsible for administrative functions clearly has not been workable.

Indeed, the recent procurement problems are symptomatic. If not corrected, I think we can expect similar problems to arise in the future.

In my judgment, delegating administrative responsiblity to one Presidential appointee is not inconsistent with the Presidential intent. The legislative history of the Federal Labor Management statute confirms that FLRA role, "Its role in the Federal sector is to be analogous to that of the Labor Relations Board in the private sector" and that at the NLRB authority for administrative functions of the agency are vested, as the chairman mentioned, in a single Presidential appointee—the General Counsel.

As a lawyer formerly on the NLRB General Counsel's staff, I can tell you first hand that the NLRB's system of administration works well. Most significantly, the Board performs its primary function of deciding cases without becoming mired in administrative detail.

I believe that the proposed delegation at the Federal Labor Relations Authority will encourage a similar result.

Senator ABDNOR. Thank you. I appreciate that.

FURNITURE PURCHASES

It sounds like you are making the most of your cuts, and trying to keep abreast of it, and moving your cases along. Of course, I guess one thing far overshadows anything else.

What has transpired on this acquisition of furniture, really, it is a disgrace, gentlemen. I do not know how any three guys could let this happen. It not only reflects on you, but on this committee. That really hurts.

I would like to think that I am basically doing a decent job down here, but when we see these figures, and everything that I have read in the press, that is hard to explain to my people back home, in what in the devil we are allowing to happen in Washington. I do not care if it is three or one, you guys have to have some responsibility, each of us in our business has to, this is your taxpayers' dollars, and I hope you treat it like it is your dollars.

I cannot believe that you would go out and buy furniture for your home, two patio sets, when you cannot even use one. How do you explain that to someone? What did it cost, $58,000, to furnish your office? If we put that kind of money in everybody's office we would be in bad shape. You are important people, I grant you, but you are still working under the Government, and you have to live under some constraints.

Who is this guy who made these purchases? Did somebody appoint him?

Mr. HAUGHTON. No; he was our staff procurement officer.

Senator ABDNOR. Did he have to sign any papers to authorize this?

Mr. HAUGHTON. I am used to asking what is supposed to be done, and I did turn that over to my assistant. My assistant was given a catalog, stating that—this is not an excuse, incidentally.

Senator ABDNOR. No; I realize it, and I appreciate your facing up to it.

Mr. HAUGHTON. I tried to send the stuff back as soon as I found out what it cost. I have checked in detail with my assistant, and there was no cost on these catalog figures. They were chosen, and then the procurement officer ordered the materials. I had no idea of what they cost until the day they arrived, at which point I tried to send them back. On a very expensive table there I was told that it could not be returned. Senator, I can understand why they would not take it back. Because of its style, they cannot send it to anybody else.

Senator ABDNOR. When I see the pictures that I asked for, and I see what we have in storage, you cannot even use, let alone what we have in the offices.

Mr. HAUGHTON. The storage matter relates to furniture ordered before any of these RIF's started. We have since seen our sister agency within the last week, the Federal Emergency Management Agency, FEMA, and find that they need the furniture that we ordered for the staff of 47 people and considerably larger space, which we have cut back. FEMA has stated that it needs that furniture. We have agreed to pass it over to them, and that will be done within a matter of days, and that will at least eliminate the storage problem.

Senator ABDNOR. I hope that you can at least cut that down.

Mr. HAUGHTON. Let me ask Mr. Shepard.

Senator ABDNOR. FEMA has flatly stated that it wants the furniture, and I understand you flatly said we will turn it over to them. When can all that be accomplished, so that there is no more storage charge?

Mr. SHEPARD. It will be completed this week.

May I add a couple of things, Senator?

Senator ABDNOR. You had nothing to do with the ordering of this?

Mr. SHEPARD. I was not the decisionmaker, but I was involved in the design of the space, about a year ago, which included some 7,000 more square feet than we wound up using, because of the 1982 budget cutback. We eliminated the whole first floor that had been programed, and furniture ordered for. The furniture already arrived when the budget decisions were made, in September and October. We also eliminated some 47 positions, and it was the furniture for these staff positions that was in storage, and we could not foresee the cutback.

Senator ABDNOR. They had to have four conference tables for those few that you had to let out? Those kinds of conference tables? Ninety-eight chairs for 47 people? Is that fellow still around with you?

Mr. SHEPARD. Forty-seven, plus the training facilities.

Mr. HAUGHTON. No; we do not want to infer that he was terminated for cause. He was caught in the RIF, and he is no longer with us.

Senator ABDNOR. He ought to be caught in the RIF. I wish he was here. I would have him up.

I understand Senator Danforth in Government Operations, he has an oversight committee—I am not going into that part of it, I just want to make sure that no more dollars ever go out of this office for that again.

I appreciate the statements that you have brought in and I know it has been looked into before, because I did some reviewing on this, because it bothers me. I do not operate that way.

Apparently a fellow by the name of Robert Freehling, who is a solicitor, told you a long time ago, without any definite reference to a statute, that you could go ahead and do this. And while you propose, I commend you for it, before we let your appropriations out of the subcommittee, I want something back from you saying that we have done it, and who is going to be responsible. OK?

Mr. HAUGHTON. We appreciate the opportunity to get moving, and the deadline that you have given us is going to just help that much more.

Senator ABDNOR. It will be a few days before we ever get the finalizing budget around here, so I am sure that you will be able to get whatever you are waiting for by that time, and then you will send us a statement signed by all of you, saying who is responsible, and how in the future it will be handled.

Mr. REUBEN. Can I put my statement in the record?

Senator ABDNOR. Yes, fine.

It is something that we do not want to happen again. It happens once, but if it happens again, we better all go home.

Mr. HAUGHTON. I do consider this statement, belatedly, a good one. It has been referred to as mine. I want to make it clear that it is a joint statement that my colleagues and I worked out yesterday and last night. It is completely ours, and I would like to ask if either of my two colleagues——

Mr. FRAZIER. It is a supplemental statement of the three members, and I concur 100 percent.

Mr. APPLEWHAITE. I would concur with the statement.

I would like to say that I prepared a personal statement regarding items of the last appointee, in August 1979, and I would submit the statement for the record.

Senator ABDNOR. Fine, we will make it a part of the record.

Well, gentlemen, I think that takes care of it. If I sound—I did not want to sound unreasonable. I just want to make sure that we do not see a similar situation. Probably you are going to be more conscious of it than anybody.

Mr. HAUGHTON. We certainly are.

Senator ABDNOR. When you look at patio sets that somebody cannot use. He does not go out and buy you one, but two. I would love to have them, too, but we have to have some accountability.

Mr. HAUGHTON. This is the word your assistant discussed with us, which was the basic thought we had in putting together this joint statement, and we agree.

Senator ABDNOR. All right.

Thank you.

U.S. TAX COURT

STATEMENT OF THEODORE TANNENWALD, JR., CHIEF JUDGE

ACCOMPANIED BY:
WASHINGTON B. BOWIE, BUDGET AND ACCOUNTING OFFICER
ALENE STALEY, ASSISTANT BUDGET AND ACCOUNTING OFFICER
CHARLES S. CASAZZA, CLERK OF THE COURT

PREPARED STATEMENT

Senator **Abdnor**. Our next witness is the U.S. Tax Court, Chief Judge Theodore Tannenwald, Jr.

Judge, we are glad to have you here.

Judge **Tannenwald**. I have with me, in the background, Charles Casazza, the Clerk of the Court; and Mr. Washington Bowie and Ms. Alene Staley from our fiscal office, in case there are some questions or details that I do not feel capable of answering.

In view of the fact that my statement has been made part of the record, Mr. Chairman, I will be very brief in my comments.

[The statement follows:]

STATEMENT OF CHIEF JUDGE THEODORE TANNENWALD, JR.

I appreciate the opportunity to appear before this Committee and present the United States Tax Court appropriations request for fiscal year 1983. Before I proceed to outline the highlights of our request, which are set forth in detail in the accompanying justification book, I think it important for the Committee to understand the status of the current operations of the Court and what seems to be ahead of us. I do not think it an understatement for me to say that the Court is in the throes of the most difficult period in its history.

In part, our difficulties have been caused by the 16% cut in our fiscal 1982 appropriation request imposed by the December 15, 1981, and March 31, 1982, continuing resolutions. We had hoped and still hope that our fiscal 1982 appropriation situation will soon be straightened out through the passage of the urgent supplemental appropriation bill (H.R. 5922) so that we can proceed to deal as promptly and effectively as possible with our biggest problem -- an increased case load. I think that this Committee should know, however, that we have had to take certain steps to cut down on our expenditures against the possibility that we would not receive our requested urgent fiscal 1982 supplemental appropriation. Among these steps are postponing the hiring of three additional special trial judges (to which I will make further reference), postponing trial sessions scheduled for April and early May until July, August, and September, and internal steps relating to personnel and supplies. If our hopes for prompt action on our urgent supplemental appropriation request for fiscal 1982 are not realized, we will have to take still further steps to curtail expenditures, which will include postponing of trial sessions now scheduled for the remainder of the fiscal year.

The other part of our difficulties is directly related to the heavy case load with which we must deal. The increase in the number of petitions filed with the Court in recent years has been dramatic. The number has more than doubled in five years from 12,339 in fiscal year 1977 to 29,720 in fiscal year 1981. As a consequence, 45,921 cases were pending before the Court on September 30, 1981, compared with 21,298 on September 30, 1977.

The foregoing increase would not in and of itself be a source of such great concern if it were not accompanied by an ever widening gap between the number of cases filed and the number of cases closed. From a situation where less than 2,000 more cases were filed than closed in fiscal 1977 -- an excess which could well have been manageable in time -- we have reached the point where there was an excess of 11,000 cases filed over cases closed in fiscal 1981, and there appears to be no sign of any significant decrease in this annual level of excess filings. Thus, in the six-month period ending March 31, 1982, cases were being filed at an average rate in excess of 2,000 per month and the gap between cases filed and cases closed continued to widen.

The Court has been making strenuous efforts to increase its output of cases, as is witnessed by a comparison of the figures for fiscal 1980 and fiscal 1981. In fiscal 1980, the Court disposed of 3,747 cases (14,470 - 10,723 settled); in fiscal 1981, the comparable figure was 5,259 (18,906 - 13,647 settled). In terms of opinions written, there has been a comparable increase, from 1,397 in fiscal 1980 to 2,133 in fiscal 1981. Moreover, although quantification is not possible, the fact is that the Court played an active role in facilitating the settlement of cases both before and after trial which made opinions unnecessary.

Aside from the obvious conclusion as to the Court's efforts to be drawn from these figures, we have continued our efforts to encourage the use of our small tax case procedure, under which cases can be reached and disposed of more quickly. Indeed, both in fiscal 1980 and fiscal 1981, the number of small tax cases filed increased from 6,884 to 8,255. Significantly, in both fiscal years the number of small tax cases closed approximated the number of cases filed, so that one could say that the Court was keeping its head above water in this area. Whether we will be able to continue to do so is an open question in view of the continuing large actual and projected increase in number of small tax case petitions filed. In this connection, we have been handicapped by our inability to hire three additional special trial judges (who handle primarily small tax cases) for whom funds were requested and approved by this Committee and the House of Representatives but whom, as I have already pointed cut, we have not recruited because of the cut in our overall fiscal 1982 appropriation request imposed upon us by the December 15, 1981, and March 31, 1982, continuing resolutions.

We have also sought to increase the Court's output by introducing a variety of case management techniques such as assigning complex cases (particularly in the so-called "tax shelter" area -- an area which promises to present increasing difficulty) to a particular Judge at an early date and assigning the same Judge to a regular trial session in the same city (e.g., New York, Miami, and Dallas) in two successive terms of the Court -- winter and spring -- so that continuances can be minimized by moving cases from the first to the second session with the same Judge rather than continuing them generally. We are also maintaining the practice of using special trial judges to handle some regular cases in addition to small tax cases.

We have not yet felt the impact of the three new Judges authorized late in 1980, who have only recently been appointed and confirmed and have assumed their duties. I should note at this point, however, that we still are short two Judges due to the resignation of one Judge to take an appointment to a United States District Court and the unexpected and tragic death of another Judge.

I can assure this Committee that we are continuing to explore every possible technique to increase our output, including efforts on my part to prod my colleagues to write more and shorter opinions. In this connection, there is pending, before a House and Senate conference, a bill which contains authority for the Judges and special trial judges of the Tax Court to make bench decisions in lieu of written opinions, as now required by statute. If this legislation passes, it should enable us to increase our output, although the same bill contains provisions for awarding attorneys' fees to taxpayers who prevail in Tax Court litigation -- provisions which may well stimulate or prolong cases and therefore be counterproductive in terms of increasing our output.

The fact of the matter, however, is that even if the Court were to double its output, the gap between the number of cases filed and cases closed would still be far from closed. Using the actual figure for fiscal 1981, the Court closed approximately 5,300 cases, against an excess of 11,000 cases filed over cases closed during that period. Simple arithmetic indicates that even if the 5,300 figure were doubled, there would still be a gap of 5,700 cases to be accounted for. What is more, I must note that the assumption that we can double our output is totally unrealistic. There are practical limits to the number of cases a Judge can handle and dispose of in a rational and just fashion within a given period of time, even if he or she moves with maximum dispatch.

Finally, you should note that my analysis has dealt only with the existing problem; I have not engaged in an analysis of predictions as to the future which forecast a serious worsening of the situation. The projections in our justification book show that there will still be an approximately 10,000-case gap between cases filed and cases closed in fiscal 1982 and fiscal 1983 -- a gap which would be far from closed even if the Court were to do the impossible and double our output. Moreover, as I have previously pointed out, the gap is in fact widening rather than remaining static.

We on the Court are convinced that a major part of the answer to making the Court's case load manageable lies with another agency of the government -- namely, the Internal Revenue Service. The notice of deficiency (the so-called 90-day letter), which is the ticket to the Tax Court, is issued by the Commissioner of Internal Revenue. The number of cases which the Court must handle depends upon the number of petitions filed by persons who receive that ticket. The more effective (and, in using that word, I envisage flexibility in settlement policy as an element of effectiveness) the Commissioner makes his audit process in respect of his dealings with taxpayers selected for audit, the less likely that a 90-day letter will be issued or, if issued, that a petition will be filed. In the same fashion, effectiveness in disposing of cases filed without trial, i.e., by way of settlement, is also essential. The Court understands that the Commissioner and Chief Counsel of the Internal Revenue Service have instituted new policies designed to encourage disposition of cases both before and after they become subject to the Court's jurisdiction. I hope that they will succeed, but the fact of the matter is that we have yet to see any drop in the high rate of filings of petitions or any increase in the rate of settlement of pending cases. Moreover, I think we must recognize that there seems to be such widespread dissatisfaction with the tax system on the part of taxpayers that, even with the most flexible settlement policy, our case load will continue to increase.

I apologize for the length of my preliminary explanation, but I felt it was important as a background for our fiscal 1983 request. I propose only to deal briefly with the highlights. The details are set forth in the accompanying justification book, and I am, of course, available to answer any questions about that material or my background analysis.

The Tax Court's 1983 budget request is for $15,083,000 and 271 permanent positions. This reflects an increase of $2,298,000 and 13 positions over the House of Representatives' authorization for fiscal year 1982.

About 70% of the increase for 1983 over 1982 is for mandatory requirements. Specifically, these increases are:

$276,000 in annualizations to provide full-year funding for the 1982 budget request.

$1,081,000 for higher rent payments to GSA -- a figure which represents an approximately 50% increase from fiscal 1982, imposed without discussion or negotiation and in respect of which payment is made directly by the Treasury Department.

$279,000 to cover increases due to inflation in such items as travel, transportation, court reporting, etc., and increases due to contemplated additional trial sessions.

$57,000 for higher payments to GSA for increased FTS rates.

or part of fiscal 1983, I urge that we be treated in the same fashion as the judicial branch. We are not technically part of that branch, but we have always been considered to be within the judiciary. The Chief Justice recently stated that the United States Tax Court is "a very important part of our judicial system."

SUMMARY STATEMENT

Judge TANNENWALD. I will really just supplement it, first of all, saying that I am grateful for the opportunity to appear before the subcommittee, and tell you a little bit about our operation.

Just briefly, let me say that the court is in a period of what I believe to be the most severe crisis in its history. We have had, as our statement shows, an enormous increase in our caseload over the past 5 years, with every indication that it will continue to increase.

We are operating under reduced funds because of the fiscal 1982 limitations, with which you are familiar, and the prospect, if what I read in the papers today is correct, of continued reduced funds. It is a little bit like trying to figure out how to solve the problem of inflation and unemployment which we have never had together before.

INCREASED CASELOAD

But I am hopeful that we will be able to solve our caseload problem. The caseload prospect is for one of continuous increase, which we hope we will be able to control through some internal management techniques, and particularly through authority, through bench decisions.

But the fact of the matter is, with the drive on the underground economy, which seems to be in the making, and I am all for it, and with what seems to be the dissatisfaction of the public with our tax system generally, there is going to be, in my opinion, more and more cases that are going to come to us, and we are hopeful that the Internal Revenue Service will be able to work out settlement policies, which they are trying to do, which will reduce the number of cases, since we have no control over that flow.

We get the cases after the Internal Revenue Service issues what is called a 90-day letter, a deficiency notice, which is a ticket to our court. Once that is issued, the taxpayer has the opportunity to come to us.

INCREASE REQUESTED FOR FISCAL YEAR 1983

On our fiscal 1983 request, let me simply say that it was constructed in a fashion very mindful of the President's objective of trying to keep expenditures to a minimum. It represents a requested increase of $2,300,000 over the figure that hopefully we will end up with for fiscal 1982.

Senator ABDNOR. This will be $2.3 million over the supplemental?

Judge TANNENWALD. Over what I hope we will end up with. Of that $2.3 million, $2 million of it, a little more than $2 million of it, or al-

Our budget request includes $525,000 for new requirements. This includes $150,000 for automated equipment badly needed by the Court to improve its operations and $46,000 for rent and telephone services at two new facilities to be assigned during the year. The balance ($329,000) is required to finance 13 additional positions. Three of the positions are for one additional special trial judge and his/her staff. Four positions are for attorneys (one attorney adviser and three law clerks) whose functions will be to expedite the most complex time-consuming pending cases. The remaining six requested positions will be assigned to the Office of the Clerk. These 13 requested positions represent a 5% overall increase in employment, compared to an estimated 25% rise in the number of cases to be filed in fiscal 1983 and a 17% growth in the average number of cases pending during the year.

Although our request for $15,083,000 represents an increase in the amount requested and approved by the House for fiscal 1982, we think it is a minimal increase in light of the enormous present and prospective case load of the Court and is completely consistent with the President's objective of holding down government expenses. The 45,921 cases pending before the Court at the end of fiscal 1981 involved deficiencies in the amount of $6,536,572,170. Obviously, not all of that amount will ultimately be determined to be owed to the government. But a not insignificant amount will be so determined. To the extent that there is delay in hearing and deciding or otherwise disposing of those cases, the government will be suffering significant loss of the use of money. Similarly, taxpayers will have to suffer the consequences of uncertainties in business and personal decisions that will accompany delay in the disposition of their cases. In this context, we believe our request is modest and totally justified.

One final word. If circumstances are such that we will be required to operate under a continuing resolution for all most 50 percent, is for a rent increase from GSA, which is neither negotiable, nor indeed do we have any opportunity even to withhold payment. It is taken off the top by the Treasury, and we never see the money.

We have an increase requested for travel expenses, and on that I simply would like to remind the subcommittee that we are mandated by statute to sit around the country, and that the higher our caseload, the more trial sessions we schedule, and we hope to schedule more for fiscal 1983, and the more trial sessions we schedule, the more travel expense we have. It is a vicious cycle.

Of the total $2.3 million, about $525,000 is in what I would call new funds; $150,000 of that is for new equipment for the clerk's office, which is badly needed, and has been for some time.

Senator ABDNOR. Maybe we can give you some from the other panel.

NEED FOR FISCAL YEAR 1982 URGENT SUPPLEMENTAL

Judge TANNENWALD. And the balance is for 13 new positions which are outlined in detail in my statement, designed to help us cope with the increased caseload. We have a very small family, in terms of our fiscal 1982 funds, if I may anticipate a question which, from the other witnesses, I think you may ask, our witching hour is getting pretty close to hand. We have been rolling over calendars, we have to get at least 2 weeks notice, and we have a very heavy schedule for June, and if we do not have money by the 15th—by the end of next week, we are going to be in real trouble in terms of rescheduling those sessions.

In terms of furloughing people, because we are a small family and because we have the increased caseload, we have not furloughed anybody yet, but we will have to think in those terms, and give whatever the legal notices are by the middle of May, and we anticipate 22 days of furlough, if that becomes necessary. We hope that we would get our supplemental.

I would like to close, Mr. Chairman, by simply saying that I read in this morning's paper, with great consternation, it is the only word that I can use, the fact that the Budget Committee, at least the Senate Budget Committee, is talking about a freeze for fiscal 1983, 1984, and 1985 at the fiscal 1982 levels.

We will simply not be able to operate and to handle our caseload if that should ever come about.

I would sincerely hope that it would not come about. And with these brief remarks, I am prepared to answer any questions that you might ask.

Senator ABDNOR. Thank you, Judge. We appreciate it.

I think your statement is thorough, and clearly sets out the problems. I guess we are aware of what took place in your situation, what happened here today on others.

This committee tried to follow the OMB, and what was instructed, and in doing so, we very obviously cut very deep, because now they themselves are coming back to us and telling us that we have to put this in. The extra funds in. And well it should be.

As you heard today, in that urgent supplemental, will be funds for numerous agencies, and you will probably hear more in the afternoon, when these groups come in.

The point I would like to make, is that I started hearing about your problems real early. I have to tell you, Senator Baker, we gave him the absolute assurance that we would put this money in. It did not stop there; Senator Hatfield, Senator Laxalt, it got impressions from the American Bar Association.

What I am saying is do not think you have to go through all that problem, it helps, but I do not think it is good for us. If we gave our word to Mr. Baker, and it was agreeable to him, and we were willing to do that, it takes a lot of time.

I know Mr. Van Kirk was tied up a long time on this, and if we had every agency doing this, we would be a long, long time trying to get back to the actual work.

So you do a very effective job, and you have some loyal friends, but I hope you do not——

Judge TANNENWALD. Mr. Chairman, let me say that I realized that I had promises, and in fact, I lived for a fairly long period of time before the promises never came to fruition, through no fault—I am not blaming anybody for it, and I finally felt that I had to bring the matter to the attention of a variety of people, which I did.

The American Bar Association moved in on its own. I knew they were moving in, because they were upset when we started to talk about rescheduling trial sessions, and if I ended up being overzealous, I hope that you and Mr. Van Kirk, with whom I have what I believe to be a very good personal relationship, will forgive me.

I was simply doing my job, and part of it was keeping you informed of what I was doing, because I thought you were entitled to know what I was doing.

Senator ABDNOR. I am sure that is true. You were very fair about that.

Judge TANNENWALD. I value the relation of the court to this committee, and as I say, I apologize if I am guilty of overzealousness. I have very good relationship with Mr. Van Kirk, and I hope it continues.

GOVERNMENT RECOVERY RATE

Senator ABDNOR. There is one question.

With all your caseload, what percentage do you win on those?

Judge TANNENWALD. What percent?

Senator ABDNOR. What percent does the IRS win, I mean?

Judge TANNENWALD. That is a very hard question to give you an exact figure on.

Senator ABDNOR. You deal with the IRS, too?

Judge TANNENWALD. There are a great number of the cases that are settled, they are filed with us, and then they are settled.

Of the cases that come before us, the Government recovers about 25 percent of the deficiencies that have been asserted, 25 to 30 percent. I can give you a breakdown, if you want, of the number of cases, all for the Government, and the number of cases all for the taxpayer, but a lot of them are split. It is very hard.

The revenue, if you want to put it that way, is about $225 million to—in fiscal 1981, was about $225 to $230 million, of approximately $800 million that were actually involved in cases that went to disposition by the court, which does include the stipulated settlements, but not the cases that are affected by our decision, which may never come to us.

Senator ABDNOR. That is true. It is interesting, the dollars—I was just curious, a lot of people complain about the harassment and things, and they end up in court, and I was curious how often IRS has a strong case, if it is a good case it will stand up?

INCREASED INTEREST RATE

Judge TANNENWALD. If it is a good case, it will. But I think you have to remember in looking at our statistics, Mr. Chairman, unlike the District Court, and the Court of Claims, where you have to put your money up front before you get in court, you can come to us with paying what was $10, now it is a $60 filing fee, although it is still only $10 in a small tax case.

So you can come to us without paying, and when the interest rate was 12 percent, this was an attractive thing to do. One of the unknown quantities we have is what impact of the interest rate being increased to 20 percent is going to have.

Senator ABDNOR. Well, I was just interested, because I think it was last year we asked the same question, and I think 71 percent——

Judge TANNENWALD. Seventy-one percent?

Senator ABDNOR. I think——

Mr. VAN KIRK. It was approximately 29.3 percent.

Judge TANNENWALD. That is what I said, about 25 to 30 percent.

Mr. VAN KIRK. Is that still true?

Judge TANNENWALD. That is still true. This is the figure for fiscal 1981 is 27.3 percent.

Mr. VAN KIRK. That is not very good as far as the IRS is concerned.

Senator ABDNOR. Yes; we are not talking about you, but the IRS.

Judge TANNENWALD. Seventy-one percent of the cases that get filed with us never come to trial, and they get settled, and the Government gets a lot of money out of the settlements. The 27.3 percent figure is based upon recoveries both from cases actually disposed by the court and settlements pursuant to which the court enters the agreed decision.

Senator ABDNOR. I am not a lawyer, but you heard what he said——

Judge TANNENWALD. I heard what Mr. Van Kirk said, and it is mixed up with dollars, and split decisions, and there is no question that there has been, of course, over the last few years of deficiencies being asserted, where the Government ends up settling them, because it is cheaper to settle than it is to try the cases in some respects. But I cannot give you any real insight on the settlements, other than to say that the settlement policies in the service have fluctuated from year to year, and I do not think you can look at—you can make the track record solely on the basis of the dollars.

I like to make the track record on the basis of dollars, because I say that the $15 million that we requested in terms of the $225 to $250 million that ultimately comes from our decision is a pretty good ratio.

Mr. VAN KIRK. Touché.

Senator ABDNOR. Well, thank you, Judge Tannenwald. We appreciate your coming here, and we thank you for your detailed statement. It will make it easier for us.

Judge TANNENWALD. I appreciate the opportunity, and again, my apologies if you think I was overzealous. But I like to discharge my—what I think to be my responsibilities.

SUBCOMMITTEE RECESS

Senator ABDNOR. Thank you very, very much, and this subcommittee will stand in recess until 2 o'clock.

[Whereupon, at 11:38 a.m., the subcommittee was recessed to reconvene at 2 p.m., the same day.]

(AFTERNOON SESSION, 2:05 P.M., THURSDAY, MAY 6, 1982)

U.S. POSTAL SERVICE

STATEMENT OF WILLIAM F. BOLGER, POSTMASTER GENERAL

ACCOMPANIED BY JIM FINCH, SENIOR ASSISTANT POSTMASTER GENERAL

BUDGET REQUEST

Senator ABDNOR. The subcommittee will come to order.

Unlike our Postmaster General, I was late, the mail is on time. I was not.

We are happy to have you with us today, and we are looking forward to hearing your statement.

Mr. BOLGER. I am accompanied by Jim Finch, Senior Assistant Postmaster General–Finance Group.

Mr. Chairman, for fiscal year 1983, the President has requested a total appropriation to the Postal Service of $500 million. This is a reduction of about $334 million from the amount provided for fiscal year 1982 under the continuing resolution.

REVENUE FORGONE

All of the $500 million request for fiscal year 1983 is for revenue forgone to fund statutory authorizations for reduced rates of postage. The request is $208 million less than the authorized amount under the Omnibus Budget Reconciliation Act of 1981. It is $413 million less than would have been necessary to fund the full subsidies authorized by law before the reductions in the authorizations enacted last year.

In the past, the revenue forgone subsidy has been composed of two elements. One, the continuing appropriation, is based on a permanent authorization to pay the nonprofit and other favored rate categories' share toward the overhead of the postal system, as determined in postal rate proceedings. The other part, the phasing appropriation, has been designed to spread out over a period of years the rate increases which the subsidized categories must pay themselves, which cover the attributable costs of their mailings. This was intended to permit the mailers who had been accustomed to paying the most heavily subsidized rates in the past to adjust more gradually to higher rate levels.

Under the continuing resolution, the phasing portion of the subsidy was eliminated except for two mail categories: in-county second class and library-rate fourth class. Those two categories had their rates increased, but only to step 13 on the 16-step phasing schedule.

The $500 million request for fiscal year 1983 is less than the amount which would be needed to fund just the continuing portion of the authorized rate reductions. I believe that the Congress should decide which mail categories get how much of the benefit from this subsidy, as it did in the December and March continuing resolutions. In the absence of specific allocation instructions, this would cut into the continuing subsidy for all except the free mail categories, such as free mail for the blind, and would require increases to levels above step 16, as shown in a table attached to my statement.

As to the policy decision of how much should be appropriated for this subsidy program, the Postal Service continues to defer, properly I believe, to the elected representatives of the people, the President, and the Congress.

PUBLIC SERVICE APPROPRIATION

No funding is requested by the President for fiscal year 1983 for the public service authorization, which was reduced by the Omnibus Budget Reconciliation Act to $100 million. The amount provided for fiscal year 1982 for this item under the continuing resolution was $220,800,000.

This year's request continues the decision made last year to accelerate the scheduled decline in this subsidy as part of the overall budgetary economy efforts under the President's economic recovery program. The Postal Service has accepted this decision and is prepared to continue to do its share toward achieving greater efficiency instead.

Last year was a challenging time as the Postal Service sought to negotiate new labor contracts, obtain needed rate increases and introduce needed automation. With labor contracts which I believe are fair to all sides, and with rates which should enable us to avoid another general increase for at least a 2-year period—that is, no sooner than November 1, 1983—the Postal Service now should have a good foundation for the year ahead.

PRODUCTIVITY INCREASES

We must build on that foundation by continuing and accelerating our efforts toward greater efficiency and productivity. Last year the Postal Service extended for the 6th year a record of unbroken productivity gains, with an overall 3.4 percent increase for fiscal year 1981. To enable us to have reasonable rate stability, and to live with the appropriations reductions, it will be critical to continue this kind of progress year after year.

Most of all, we must push ahead with our automation programs, which will begin to deliver later this year some of the optical character readers we are purchasing. It is essential that we get the full benefit of the productivity gains which this technology will make possible through the use of the ZIP plus four code just as soon as permitted under current law. With the continuing progress which is available in the years ahead, I am confident the Postal Service will be able to continue to do its job for the American people without again becoming a drain on the Treasury.

BORROWING AUTHORITY

As part of a credit control program, the budget transmitted early this year again proposes to tighten the restrictions on Postal Service borrowing authority under permanent law. We would be limited to borrowing no more than $1 billion, including no more than $500 million for operating purposes. A 12-month pay back requirement would be imposed, which as I understand it, would apply to the operating portion only and not the capital portion.

The Postal Service does not anticipate borrowing the amounts specified for operating purposes and in fact has not borrowed in over 5 years. Nevertheless, our permanent borrowing authority provides a vital safety valve, particularly in case of short-term cash-flow problems. Unlike our present authority, which is stated in terms of net increases in amounts outstanding over a full fiscal year, the proposed language could seriously undermine that safety valve because it does not give credit for amounts paid back. Furthermore, this safety valve is potentially critical at a time like the present when postage rate levels are being challenged in court.

I believe that the Postal Service has exercised its present authority responsibly and that further limitations are not needed.

I will try to answer any questions you may have.

Senator ABDNOR. Thank you, Mr. Bolger, for your statement.

We commend you for your gain in productivity, maybe we ought to get this going with some others.

REVOLVING FUND

In 1979, 1980, and 1981, this subcommittee instructed the USPS that, in instances where the USPS is the net debtor to foreign postal administrations, to make offsetting payments to the revolving fund before making payment to the foreign country.

What has been done on that?

Mr. BOLGER. I will ask Mr. Finch to answer that.

Senator ABDNOR. I should have introduced you. I am sorry.

Mr. FINCH. Yes, Mr. Chairman.

In those places where we have the legal authority, we pay back into the revolving fund. I think there is some question in terms of what our legal authority is. I know some of the airlines argue that the Postal Service could just reach into its general postal revenues and in fact increase the amount of dollars in the revolving fund.

Our position is, based on advice of counsel, that we do not have the authority to increase the amount of the revolving fund, except to the extent that we receive payment from foreign countries.

Senator ABDNOR. What agreements? You say you do not have a right to receive what? I missed that last part.

Mr. FINCH. Our position is based on the advice of counsel that the Postal Service does not have legal authority to take from the revenues which it gets from appropriations, postage, and fees and pay that, or a portion of those revenues, into the revolving fund for the purpose of paying out of that fund.

The only way we place money into the fund is if we receive reimbursement from other postal administrations. Congress established the fund and Congress appropriated $5 million to fund the revolving fund. The advice of our counsel is that we do not have authority unilaterally to take postage revenues and increase the level of funding in the revolving funds.

I might say that I think that situation has been eased somewhat since we were here last year, in terms of our doing a better job with the foreign postal administrations.

Senator ABDNOR. Could you tell us what attempts, at least, to your knowledge, what attempts have been made to collect the outstanding postal debts of foreign nations?

Mr. BOLGER. Quite a bit. We have met with many foreign nations in the past year, we have collected some of the outstanding debt, and we have made some arrangements to be in better contact with them, to make sure that these things do not stagnate.

Senator ABDNOR. Last year you were talking about collecting debts which were just a year old, when you were before the full committee last year.

What do you know about those?

Mr. BOLGER. I have no specific information. I could supply it for the record.

Senator ABDNOR. Would you?

Mr. BOLGER. Yes, sir.

[The information follows:]

As a result of the Universal Postal Union regulations regarding the length of time allowed for acceptance, settlement, and payments of accounts between foreign administrations, it is not unusual for accounts to become over 1-year old, before being turned over to the State Department. Postal debts normally do not become large enough to forward to the State Department until more than 1 year has passed. Also, the U.S. Postal Service tries to exhaust all available collection remedies prior to involving the State Department.

The Postal Service, in several instances through State Department assistance, has been able to negotiate settlements with foreign administrations for installment payments on debts.

Last year the below-listed countries, which were indebted to the revolving fund for $3.4 million, were identified to your subcommittee: Costa Rica, Guatemala, Haiti, Italy, Liberia, Nigeria, Panama, Philippines, Poland, Portugal, Saudi Arabia, Uruguay, Venezuela, and Vietnam.

All of these postal administrations except Portugal are net debtors to the United States at this time. Over the past year, USPS collection efforts have reduced the indebtedness of these countries to the revolving fund by $700,000. In addition, the Postal Service advanced $6,192,134.14 to the air carriers for the revolving fund during the past 12 months. This was made possible by continuous USPS efforts to replenish the revolving fund through increased settlement activity with foreign postal administrations.

The following schedule lists those foreign postal administrations with which the Postal Service is a net debtor as of March 31, 1982. The amounts detailed in this attachment are the outstanding revolving fund advances made to domestic air carriers for services performed by these countries. To date, the Postal Service has not advanced moneys to the revolving fund for any of these net debtor positions.

Amount of revolving fund advances where the U.S. Postal Service is a net debtor with foreign postal administration

Foreign postal administration:	*Revolving fund advances made to U.S. flag carriers*
Yemen, People's Republic of	$2,220
Australia	71,969
Argentina	8,564
Brazil	26,589
Republic of Sri Lanka	10,061
United Kingdom	591,319
Cameroon	7,728
Ghana	68,934
India	6,874
Indonesia	12,527
Ivory Coast	6,379
Portugal	9,793
Saudi Arabia	51,466
Singapore	262.585
Paraguay	4,226
Philippines	10,173
Tanzania	2,003
Turkey	4,243
Somalia	1,516
People's Republic of China	10,265
Thirty-four creditor postal administrations with individual amounts less than $1,000	9,438
Total of 54 postal administrations	1,178,872

OUTSTANDING DEBTS

Senator ABDNOR. So we will have it for the record.

You have not turned any of them over to the State Department for collection?

Mr. BOLGER. No, sir.

Senator ABDNOR. Last year you indicated particular problems in making collections from Cuba and Haiti, which had debts outstanding for as long as 10 years.

Do you have a settlement going on that?

Mr. BOLGER. I do not think either of those accounts has been settled, and I do not think we have made any progress, to speak of.

CLOSING SMALL POST OFFICES

Senator ABDNOR. Let me ask you this. It is always my favorite question, I guess.

In the administration's fiscal year 1983 budget submission, would you expect to reduce service, or close small post offices?

Mr. BOLGER. No, sir, I do not. I said when I took this job—the very first day—that I was not a believer in wholesale closings of small post offices, and I have been able to meet that commitment. This reduction of the public subsidy will not make me change my mind.

The small post offices are a very valuable asset to the American people and the business people who have to get mail through to them. I know we have to close some offices here and there that we find out are not needed since alternate postal service could be provided.

I have no plans for any wholesale closings of small post offices.

SIX-DAY DELIVERY

Senator ABDNOR. I am glad to hear that, selfishly, I guess. But I was wondering if the situation was any different for 1983. Do you feel the same way, to elect to continue the 6-day mail service?

Mr. BOLGER. Yes, sir, I am required to, through 1984 any way, by the Budget Reconciliation Act of 1981. I was required under that legislation. But we also need 6-day delivery, in my opinion, to serve America. Our volume is growing. We are not losing volume.

The Postal Service has had about 110 billion pieces last year, and I expect 113 billion this year, and because of that, 6-day service is needed.

Senator ABDNOR. Thank you.

My people will be happy to hear that.

SECOND-CLASS, IN-COUNTY RATES

Let me ask you another question about the 1983 budget. If that is enacted into law, what rate will the in-county rural newspapers pay, as compared to what they have been paying, or compared to commercial rates for the same type of newspaper?

Mr. BOLGER. We supplied that for the record—a chart.

I will ask Mr. Finch to specifically answer that for you.

Senator ABDNOR. Is it in the record?

Mr. BOLGER. Yes, it is.

Mr. FINCH. Yes, it is attached to the testimony.

A rural newspaper with an average weight of 4 ounces, is currently paying, Mr. Chairman, 3.4 cents per piece. The rate that that newspaper will be paying in fiscal year 1983, assuming the $500 million appropriation for revenue forgone, will be 4.7 cents. The increase would be from 3.4 to 4.7 cents.

The commercial rate—just to give you a benchmark—the commercial rate for the same weight newspaper, with the same amount of advertising, will be 9.9 cents.

Senator ABDNOR. Thank you.

SECOND-CLASS, NONPROFIT RATES

Mr. Bolger, can you forecast, percentagewise, the subsidies for nonprofit magazines, like veterans publications, library rates, and agricultural publications?

Mr. BOLGER. Yes; again, that is in the chart that we presented for the record.

Nonprofit publications, such as the veterans magazines, are currently paying—again, weighing 4 ounces, 20 percent advertising, going from New York to Chicago, which is an average distance the magazines travel—8 cents. With the appropriation of $500 million for revenue forgone, the rate will go to 8.3 cents. The regular commercial rate is 9.2 cents per piece.

Senator ABDNOR. Now, your chart will be made a part of the record.

Mr. BOLGER. Yes, sir.

ZIP PLUS FOUR

Senator ABDNOR. Another issue that I have not heard about much this year yet, I suppose it will come up, what can I tell my constituents about ZIP plus four?

Mr. BOLGER. Well, as you know, Mr. Chairman, we are restricted from implementating the ZIP plus four, under current law, until October 1, 1983. Also, the Congress will receive a report from the General Accounting Office on the whole issue in December 1982.

I have not changed my feelings about ZIP plus four. I think it should be implemented on a voluntary basis. We should be able to implement that program. I think it is the best way to get the most return from the investment in automated equipment, as long as we keep it voluntary and as long as we keep it on a price-incentive basis for large mailers. Hopefully, if enough people use it on a voluntary basis, I think we will not cause any great hardship for the American public or for the American business. My interest in it is to get the most use out of the automated equipment that we require in the Postal Service.

Senator ABDNOR. Do you have any idea how much of a savings this could be?

Mr. BOLGER. Well, we estimated our savings on this, I will supply the exact figures for the record.

Senator ABDNOR. I would appreciate it.

[The information follows:]

We have estimated that the automated mail processing system, when used in conjunction with the ZIP plus four code, will produce savings of approximately $600 million in 1987, the first year of full utilization. The savings increase to over $1 billion per year by 1996. These figures reflect net savings after expenses for maintenance, training, and installation. The increased productivity associated with automation will enable the savings to be achieved. In addition, recent bar code sorter tests indicate significant increases in productivity over that used to project the above savings, and consequently it is anticipated that an additional $76 million per year will be saved.

In order to determine a "social return on investment" as required by OMB for the regulatory impact analysis, the proposed rate discount of one-half cent per mail piece was used as an upper bound of mailer conversion costs. It has been estimated that the average mailer will pay one-half to 2 cents per record to convert existing five-digit address lists. Accordingly, only the first few years of the incentive are required to cover mail conversion costs. After this period the annual savings of $676 million will be returned to mailers in the form of work sharing incentives or more stable postal rates. Therefore, the $140 million in rate incentives should not be subtracted from the automation annual savings of over $676 million.

ZIP PLUS FOUR

Mr. BOLGER. We can get a 22-percent return on our investment with the automated equipment with the five digit code. We can increase that return on investment up to about 48 percent if we use the ZIP plus four. We actually projected the savings—the exact figure slips my mind at the moment—based on the machinable letter mail that we had in our system in 1980, projected out against the costs which we would be experiencing in 1986 or 1987.

The figure—I am still a little cloudy in my mind—is about $700 million on an annualized basis, counterbalanced by about $150 million that we would have to invest in a one-half cent rate discount for using the ZIP plus four. So you net out to about, oh, $550 million a year. That is a very, very conservative estimate. I will supply the actual figures for the record.

Senator ABDNOR. Do you feel that—it has been about a year since we started talking about this, do you think maybe the concerns have been arrested?

Mr. BOLGER. One hopes they have been. I feel very strongly that this is the right way to go, as long as we move responsibly and keep the public and the business world informed. But I think there is still some misunderstanding about it.

I think that we have a lot more work to do in fostering understanding of the system as we go through the implementation phases of ZIP plus four, but I believe that the business world, the mayors, and I think the Members of Congress understand what we need to do, or plan to do.

I do not think anybody likes additional numbers in their life. I know I do not. So long as we keep this on a voluntary basis, I think it is a perfectly normal, proper thing to do in this computerized world.

Senator ABDNOR. I hope more information comes out. I suppose there would be some attempts to bring it up again. But I thought it was unusually quiet here on that subject. I almost forgot about it myself.

Mr. Bolger, tell us, are you caught in the middle, between the postal unions and your efforts to automate, or electronicize the Postal Service? Do the postal unions fight that, are you in the middle of it, in any case?

Mr. BOLGER. I do not think any union likes to see management go to automation and eventually cut down the number of jobs in an organization. But I think the unions are very understanding of what we are trying to do. I think they understand that we are trying to increase the efficiencies of the Postal Service, make it a better place to work, and insure postal careers by having a more efficient organization. But they do not accept automation.

I am sure they would rather see us not do it and have more people work in the Postal Service. Nevertheless, I am sure they understand what we are trying to do, and while they may not publicly support it, I feel they are as interested as I am in bringing to the American public the most cost-effective Postal Service that we can.

Senator ABDNOR. I think that is all that I have.

If we have any additional questions, we will submit them to you in writing.

We thank you very much.

PREPARED STATEMENT

Mr. BOLGER. Thank you very much.

Senator ABDNOR. We will insert your statement in the record.

[The statement follows:]

STATEMENT OF WILLIAM F. BOLGER

Mr. Chairman, for fiscal year 1983, the President has requested a total appropriation to the Postal Service of $500 million. This is a reduction of about $334 million from the amount provided for FY 1982 under the continuing resolution.

All of the $500 million request for FY 1983 is for revenue forgone to fund statutory authorizations for reduced rates of postage. The request is $208 million less than the authorized amount under the Omnibus Budget Reconciliation Act. It is $413 million less than would have been necessary to fund the full subsidies authorized by law before the reductions in the authorizations enacted last year.

In the past, the revenue forgone subsidy has been composed of two elements. One, the continuing appropriation, is based on a permanent authorization to pay the nonprofit and other favored rate categories' share toward the overhead of the postal system, as determined in postal rate proceedings. The other part, the phasing appropriation, has been designed to spread out over a period of years the rate increases which the subsidized categories must pay themselves, which cover the attributable costs of their mailings. This was intended to permit the mailers who had been accustomed to paying the most heavily subsidized rates in the past to adjust more gradually to higher rate levels.

Under the continuing resolution, the phasing portion of the subsidy was eliminated except for two mail categories: in-county second class and library-rate fourth class. Those two categories had their rates increased, but only to step 13 on the 16-step phasing schedule.

The $500 million request for FY 1983 is less than the amount which would be needed to fund just the continuing portion of the authorized rate reductions. I believe that the Congress should decide which mail categories get how much of the benefit from this subsidy, as it did in the December continuing resolution. In the absence of specific allocation instructions, this would cut into the continuing subsidy for all except the free mail categories such as free mail for the blind, and would require increases to levels above step 16, as shown in a table attached to my statement.

As to the policy decision of how much should be appropriated for this subsidy program, the Postal Service continues to defer, properly I believe, to the President and the Congress.

No funding is requested by the President for FY 1983 for the public service authorization, which was reduced by the Omnibus Budget Reconciliation Act to $100 million. The amount provided for FY 1982 for this item under the continuing resolution was $220,800,000.

This year's request continues the decision made last year to accelerate the scheduled decline in this subsidy as part of the overall budgetary economy efforts under the President's economic recovery program. The Postal Servce has accepted this decision and is prepared to continue to do its share toward achieving greater efficiency instead.

Last year was a challenging time as the Postal Service sought to negotiate new labor contracts, obtain needed rate increases, and introduce needed automation. With labor contracts which I believe are fair to all sides, and with rates which should enable us to avoid another general increase for at least a 2-year period, the Postal Service now should have a good foundation for the year ahead.

We must build on that foundation by continuing and accelerating our efforts toward greater efficiency and productivity. Last year the Postal Service extended for the sixth year a record of unbroken productivity gains, with an overall 3.4 percent increase for FY 1981. To enable us to have reasonable rate stability, and to live with the appropriation reductions, it will be critical to continue this kind of progress year after year. Most of all, we must push ahead with our automation programs, which will begin to deliver some of the optical character readers we are purchasing later this year. It is essential that we get the full benefit of the productivity gains which this technology will make possible, through the use of the ZIP + 4 code just as soon as permitted under current law. With the continuing progress which is available in the years ahead, I am confident the Postal Service will be able to continue to do its job for the American people without again becoming a drain on the Treasury.

As part of a credit control program, the Budget transmitted early this year again proposes to tighten the restrictions on Postal Service borrowing authority under permanent law. We would be limited to borrowing no more than $1 billion, including no more than $500 million for operating purposes. A 12-month pay back requirement would be imposed, which as I understand it, would apply to the operating portion only and not the capital portion.

The Postal Service does not anticipate borrowing the amounts specified for operating purposes and in fact has not borrowed in over five years. Nevertheless, our permanent borrowing authority provides a vital safety valve, particularly in case of short-term cash-flow problems. Unlike our present authority, which is stated in terms of net increases in amounts outstanding over a full fiscal year, the proposed language could seriously undermine that safety valve because it does not give credit for amounts paid back. Furthermore, this safety valve is potentially critical at a time like the present when postage rate levels are being challenged in court.

I believe that the Postal Service has exercised its present authority responsibly and that further limitations are not needed.

I will try to answer any questions you may have.

COMPARATIVE PHASED POSTAL RATES: ILLUSTRATIVE MAILINGS

	Current Rates (1)	Rates In Effect September 30, 1982 (2)	Rates At Step 16 Levels		Rates Required With $500 Million Revenue Forgone Effective October 1, 1982 1/		Regular (Commercial) Rate (7)	Subsidy (Column (7) minus Column (5)) as Percent of Regular Rate (8)
			Postage (3)	Increase Over (2) (4)	Postage (5)	Increase Over (3) (6)		
Under 5,000 Copies Newspaper Frequency: Weekly Weight: 4 ounces Advertising: 50% Within 150 miles of entry Presorted to 5 Digits	8.1¢	8.1¢	8.1¢	0	8.2¢	1%	9.1¢	10%
Third Class Nonprofit Fund-Raising Letter Weight: 3/4 ounce Nationwide Distribution Presorted to 5 Digits	5.0¢	5.0¢	5.0¢	0	5.4¢	8%	9.3¢	42%
Fourth Class Library Rate Book Between Libraries Weight: 2 pounds New York to Chicago	$0.43	$0.47	$0.55	17%	$0.58	5%	$0.86	33%

1/ These rates are appropriate only if rates are implemented on October 1, 1982. If the rate implementation date is delayed, higher rates will be required to compensate for the period that lower rates were in effect.

	Current Rates (1)	Rates In Effect September 30, 1982 (2)	Rates At Step 16 Levels		Rates Required With $500 Million Revenue Forgone Effective October 1, 1982 1/		Regular (Commercial) Rate (7)	Subsidy' (Column (7) minus Column (5)) as Percent of Regular Rate (8)
			Postage (3)	Increase Over (2) (4)	Postage (5)	Increase Over (3) (6)		
Second Class Publications In County Rural Newspaper: Frequency: Weekly Weight: 4 ounces Advertising: 50% All Delivered In County Presorted to 5 Digits	3.4¢	3.6¢	4.1¢	14%	4.7¢	15%	9.9¢	53%
Nonprofit Veteran's Magazine Frequency: Monthly Weight: 4 ounces Advertising: 20% New York to Chicago Presorted to 5 Digits	8.0¢	8.0¢	8.0¢	0	8.2¢	3%	9.2¢	11%
Classroom Classroom Publication Frequency: Weekly Weight: 12 ounces Advertising: 15% New York to Chicago 32 Copies per piece	7.3¢	7.3¢	7.3¢	0	8.4¢	15%	17.3¢	51%
Science of Agriculture Rural Agricultural Newspaper Frequency: Weekly Weight 4 ounces Advertising: 50% Within 150 miles of entry Presorted to 5 Digits	8.5¢	8.5¢	8.5¢	0%	8.5¢	0	9.1¢	7%

1/ These rates are appropriate only if rates are implemented on October 1, 1982. If the rate implementation date is delayed, higher rates will be required to compensate for the period that lower rates were in effect.

COMMITTEE FOR PURCHASE FROM THE BLIND AND OTHER SEVERELY HANDICAPPED

STATEMENT OF CLYDE C. COOK, CHAIRMAN

ACCOMPANIED BY CHARLES W. FLETCHER, EXECUTIVE DIRECTOR

PREPARED STATEMENT

Senator ABDNOR. We will now be hearing from the Committee for Purchase from the Blind; Mr. Cook, the Chairman, and Mr. Fletcher, the Executive Director.

We welcome you to the committee, and we appreciate your willingness to come up here out of order, and bring you up earlier.

Mr. COOK. Mr. Chairman, with your permission, I will submit my written statement and summarize briefly.

[The statement follows:]

94-917 O - 83 - 28

STATEMENT OF CLYDE C. COOK

Mr. Chairman, it is a pleasure to appear here today to present the appropriations request of the Committee for Purchase from the Blind and Other Severely Handicapped for fiscal year 1983.

This Committee was created by the Javits-Wagner-O'Day Act (Public Law 92-28) in 1971. The Committee is the successor to the Committee on Purchases of Blind-Made Products established by the Wagner-O'Day Act of 1938. Its purpose is to increase employment opportunities for blind and other severely handicapped, and whenever possible, to prepare these individuals to engage in normal competitive employment. The Committee's primary means for achieving its objective is to direct the Government's procurement of selected commodities and services to qualified workshops serving the blind and other severely handicapped.

The 15 members on the Committee are appointed by the President. Eleven members represent various Government agencies and four are private citizens who are conversant with the problems in employing the blind and other severely handicapped.

Under the Act, the Committee has the responsibility for determining which products and services the Federal Government buys are suitable for provision by qualified workshops serving the blind and other severely handicapped. The Committee establishes the prices which the Government must pay for those commodities and services.

The Committee has a full-time staff of twelve persons to assist in the implementation of the program. The staff is responsible for developing recommendations and proposals for the consideration of the Committee. Operationally, it supervises the selection and assignment of new commodities and services; assists in establishing the fair market price and reviewing price changes; verifies the qualifications and monitors the performance of workshops; and serves as a vital link between the workshops and the Federal Government in expanding the program and resolving production problems. In addition, the staff handles all of the administrative functions for the Committee such as developing policies and procedures, initiating and responding to correspondence, preparing the Committee's budget, and performing all the functions required of an independent Government agency.

During the past year, the Committee has continued its progress in expanding the benefits of the Javits-Wagner-O'Day Act to increasing numbers of blind and other severely handicapped individuals.

Workshop sales to the Federal Government under the Committee's program during fiscal year 1981 were $139 million. In addition, sales through the military resale program were $11 million for a total of $150 million under this program. This represents an increase of $43 million over the total workshop sales of $107 million in fiscal year 1980.

Blind workshop sales, including those through the military resale program, increased from $79 million in fiscal year 1980 to nearly $110 million in the past year.

Government sales by other severely handicapped workshops under this program were $40 million, an increase of $12 million over fiscal year 1980.

During the past year, the Committee approved the addition of 61 commodities and 37 services to the Procurement List with a total annual value of $20 million. These additions created new jobs for 570 blind and other severely handicapped individuals.

As of September 30, 1981, there were 208 blind and other severely handicapped workshops producing products or providing services for the Federal Government, an increase of 15 over the year before. This trend is expected to continue in fiscal years 1982 and 1983 with a commensurate increase in the workload of the Committee staff.

The Committee staff made about 100 visits to workshops in fiscal year 1981 to ensure their compliance with the Act and the Committee's regulations and to resolve production problems in producing commodities or providing services under the Act. As the program has expanded, the number of workshops encountering production problems has increased. This has required the staff to devote a significant portion of its effort in resolving production problems and in monitoring workshop performance.

Our budget request for fiscal year 1982, submitted a year ago, was for $621,000. However, the continuing resolution authorized funds for the Committee in fiscal year 1982 limited expenditures to $524,000. Since the bulk of the Committee's budget involves fixed costs, the 16 percent reduction in funds has required the Committee to restrict severely its activities. We have taken the following actions in order to remain within the $524,000 ceiling:

- Committee meetings have been limited to six this year rather than scheduling them monthly as normal.

- Travel has been reduced by 70 percent. This has resulted in the staff's inspecting only 30 workshops rather than the nearly 100 we had planned to inspect.

- We have postponed replacing the current Linolex 2000 computer-word processing system with a new system until fiscal year 1983.

- We have taken a number of additional steps to achieve a series of temporary savings in other cost areas.

- Each member of the Committee staff is being furloughed for 12 days during fiscal year 1982.

The Committee has requested a pay supplemental for fiscal year 1982 in the amount of $19,000. This is made up of $14,000 for the Federal pay raise which went into effect in October 1981 and $5,000 to cover the increase in the pay for the Executive Director as the result of raising the ceiling on the pay of the senior executives on January 1, 1982. If this pay supplemental is approved, we will be able to cancel a portion of the 12 furlough days now planned for the Committee staff.

This Committee's appropriations request for fiscal year 1983 is for $653,000. This is an increase of $32,000 over our request for fiscal year 1982. The major portion of that increase is $20,000 to cover step increases in pay and the October 1981 pay raise which was not reflected in the fiscal year 1982 budget. The balance is made up of a number of minor adjustments in the costs we are forecasting for fiscal year 1983.

Our fiscal year 1983 budget request represents the minimum funds required by the Committee to discharge its responsibilities in expanding employment opportunities for blind and other severely handicapped persons in the coming year.

JUSTIFICATION

COMMITTEE FOR PURCHASE FROM THE BLIND AND OTHER SEVERELY HANDICAPPED

Salaries and Expenses

For expenses necessary for the Committee for Purchase from the Blind and Other Severely Handicapped established by the Act of June 23, 1971, Public Law 92-28, including hire of passenger motor vehicles ($524,000). $653,000

(Treasury, Postal Service, and General Government Appropriation Act, 1983)

Note: The appropriation for this account for 1982 had not been enacted at the time this budget was prepared. The 1982 amounts shown below are based upon a continuing resolution (Public Law 97-92) in effect through March 31, 1982.

Program and Performance

The Committee for Purchase from the Blind and Other Severely Handicapped was established by the Wagner-O'Day of 1938, as amended. Its primary objective is to increase the employment opportunities for the blind and other severely handicapped and, whenever possible, to prepare them to engage in normal competitive employment. In 1983, 42,000 blind and handicapped individuals are projected to be employed in 240 producing workshops. The Committee determines which commodities and services are suitable for Government procurement from qualified nonprofit agencies serving the blind and other severely handicapped; publishes a procurement list of such commodities and services; determines the fair market price for commodities and services on the procurement list; and makes rules and regulations necessary to carry out the purposes of the act. The Committee expects to have 1,920 items on its Procurement List, with workshop sales to the Federal Government of about $165 million.

The Committee staff supervises the selection and assignment of new commodities and services, assists in establishing prices, reviews and adjusts these prices, verifies the qualifications of workshops, and monitors their performance.

OBJECT CLASSIFICATION (in thousands of dollars)

Identification code 95-2000-0-1-505		19 81 actual	19 82 estimate	19 83 estimate
Personnel compensation:				
111.101	Permanent positions	323	332	357
111.301	Positions other than permanent.	6	2	10
111.501	Other personnel compensation	1	0	1
111.801	Special personnel service payments . . .	0	0	6
111.901	Total personnel compensation	330	334	374
Personnel benefits:				
112.101	Civilian.	31	32	34
121.001	Travel and transportation of persons. . .	31	28	52
123.101	Standard level user charges	34	34	34
123.201	Communications, utilities, and other rent.	20	20	50
124.001	Printing and reproduction	41	38	46
125.001	Other services.	32	32	48
126.001	Supplies and materials.	5	6	12
131.001	Equipment	0	0	3
999.901	Total obligations . . .	524	524	653

Program and Financing
(in thousands of dollars)

Identification code 95-2000-0-1-505	19 81 actual	19 82 estimate	19 83 estimate
SALARIES AND EXPENSES			
Program by activities:			
Select, price, and assign products and services of the blind and other severely handicapped for supply to the Government (Total program costs, funded)	563	525	653
Change in selected resources (undelivered orders)	-39	-1	---
10.00 Total obligations	524	524	653
Financing:			
25.00 Unobligated Balance Lapsing	41	---	---
39.00 Budget Authority	565	524	653
Budget Authority:			
40.00 Appropriation	565	524	653
Relation of obligation to outlays:			
71.00 Obligations incurred, net	524	524	653
72.40 Obligated balance, start of year	69	58	57
74.40 Obligated balance, end of year	-58	-57	-57
77.00 Adjustment in expired accounts	-8	---	---
90.00 Outlays, excluding pay raise supplemental	527	525	653

DETAIL OF PERMANENT POSITIONS

95-2000-0-1-505	1981 actual	1982 estimate	1983 estimate
GS-15	1	1	1
GS-14	1	1	1
GS-13	1	1	1
GS-12	3	3	3
GS-11	2	2	2
GS-9	0	1	1
GS-7	2	1	1
GS-6	1	1	1
GS-4	1	1	1
Total permanent positions	12	12	12
Unfilled positions, Sept. 30	0	0	0
Total permanent employment, end of year	12	12	12

PERSONNEL SUMMARY - SALARIES & EXPENSES

Identification code 95-2000-0-1-505	1981 actual	1982 estimate	1983 estimate
Total number of permanent positions	12	12	12
Full-time equivalent of other positions	0	0	0
Total Compensable Work Years	12.05	12.05	12.05
Average GS grade	10.25	10.27	10.27
Average GS salary	$27,197	$27,273	$27,871

BUDGET REQUEST

Mr. Cook. As indicated in my prepared statement, during fiscal 1981, the committee continued its progress in expanding the benefits of the Javits-Wagner-O'Day Act to increasing numbers of blind and severely handicapped individuals. Additions approved by the committee in 1981 should provide 560 additional jobs, and increased revenue of $20,117,000.

During the current year we have taken a number of steps to curtail expenditures. We have reduced our travel by 70 percent. We postponed the acquisition of the computer word-processing equipment, which we feel would have made our job simpler. We plan to furlough each member of the committee staff for up to 12 working days during the current fiscal year.

Our appropriation request for fiscal 1983 is for $653,000. This is an increase of $32,000 over our request for fiscal year 1982. The major portion of this increase is $20,000 to cover the increases in pay due to the October 1981 pay raise which was not reflected in the 1982 budget. The balance is made up of a number of minor adjustments that we are forecasting for fiscal 1983.

Mr. Chairman, we believe that the fiscal 1983 budget request represents the minimum funds required by the committee to discharge its responsibilities to expand employment opportunities for the blind and other severely handicapped persons.

Senator Abdnor. Thank you.

If we are successful in the supplemental, you are not going to have to go to 12 furlough days?

Mr. Cook. We will probably be able to reduce it to six or less.

Senator Abdnor. Well, that is better than the 12.

Mr. Cook. Yes, sir.

Senator Abdnor. Well, you are a small agency, but very clearly represented.

Thank you very, very much.

FEDERAL ELECTION COMMISSION

STATEMENT OF COMMISSIONER FRANK P. REICHE, CHAIRMAN

ACCOMPANIED BY:
DANNY LEE McDONALD, VICE CHAIRMAN
COMMISSIONER JOAN D. AIKENS, BUDGET TASK FORCE
B. ALLEN CLUTTER, STAFF DIRECTOR
CHARLES N. STEELE, GENERAL COUNSEL

PREPARED STATEMENT

Senator Abdnor. Is the Federal Election Commission all here? I do not want to rush you.

If you are, we would appreciate having you come up at this time.

We welcome you to the committee. Let me say this. Your entire statement will be made a part of the record. If you want to summarize it, or you may approach it any way you care.

Please proceed.

Mr. Reiche. Thank you, Mr. Chairman.

On behalf of the Federal Election Commission, I would like to thank the committee for this opportunity to present our fiscal year 1983 budget request, and also our fiscal year 1982 pay supplemental request.

We thank you for making our written testimony part of the public record.

[The statement follows:]

STATEMENT OF FRANK P. REICHE

We thank you, Mr. Chairman, for providing the Federal Election Commission the opportunity today to present and explain to the Senate Appropriations Subcommittee on Treasury, Postal Service and General Government, its appropriation request for Fiscal Year 1983 and its request for a supplemental appropriation for Fiscal Year 1982.

The Federal Election Commission is currently operating in Fiscal Year 1982 under a Continuing Resolution at a level of $8,990,000. This is substantially lower than the $9,746,000 originally recommended by OMB, the $9,662,000 approved by the House of Representatives, and the $9,365,000 approved by the Senate Appropriations Committee. On September 1, 1981, the Commission submitted a request to Congress and the Director of the Office of Management and Budget for $10,545,642 for FY 1983. After submission of that request, we discussed with officials of the Office of Management and Budget the impact which our limited FY 1982 funding is having on Commission operations and the implications of various FY 1983 funding levels as we seek to fulfill our responsibilities relating to the 1982 elections and preparations for 1984. The Reagan Administration agreed that more resources were needed by the Commission and submitted a request for $9,880,000 in late January as part of the President's FY 1983 Budget.

The Commission has reconsidered its September, 1981 request as well. This review encompassed not only activities related to the 1982 and 1984 elections, but also our long-range priorities. This review is continuing. No aspect of the Commission's operations will be free from scrutiny. While there are still many specific decisions to be made regarding the allocation of resources, the Commission is prepared at this time to join with the Administration in seeking the support of this Subcommittee for a FY 1983 appropriation of $9,880,000. This is a reduction of approximately $666,000 from the previous request.

While the past few years have been a time of uncertainty for many government agencies, this period has been particularly difficult for the Federal Election Commission. In three of the past four years, we have operated pursuant to the authority of our appropriation. Furthermore, in FY 1981 we operated under a Continuing Resolution for the entire year and did not know what our final appropriation would be until quite late in the year. This is happening again in FY 1982. Rather than receiving funding under a permanent bill, we are operating under a Continuing Resolution.

The level at which we are now funded will not permit us to operate at current levels for the entire year. While we have submitted a request for a supplemental appropriation of $183,900 covering one-half the Congressionally-approved pay raises for our employees, the additional funds are not likely to be provided until late in the year, if then. This has made planning extremely difficult. If we assume that we will receive a pay supplemental and none is provided, the Commission will run out of money before the end of the fiscal year. If, on the other hand, we plan on the basis of the Continuing Resolution level, then the Commission will be faced with the prospect of furloughing the entire staff at a time when we should be increasing our activity to deal with the 1982 Congressional primary and general elections.

The Commission is a small agency, the operations of which are very personnel-intensive. Over 70 percent of our appropriation is allocated to personnel costs. This means that when our costs increase in any area, our ability to maintain personnel levels--and thus our capability to perform necessary functions--is diminished. The Commission's actual appropriations were approximately $8.3 million in FY 1979, $8.9 million in FY 1980, and $9.6 million in FY 1981. When these amounts are adjusted for inflation, however, one immediately realizes that in terms of real dollars, the respective amounts have decreased each year. Our total permanent staff has also been reduced in each of the past three years, from a FY 1979 high of 258, to 246 in FY 1980 and 231 in FY 1981.

In December 1981, cognizant of the government-wide budget situation and recognizing the need to exercise fiscal restraint, the Commission approved a reduction-in-force of 16 positions--one-half of the Audit Division. We had hoped that some of these positions could be reallocated to the Reports Analysis Division to meet potential manpower shortages. We had also anticipated that action could be taken to address a potential backlog in the data entry and coding area during the remainder of FY 1982. This will not be possible with the funding provided under the Continuing Resolution. A hiring freeze has been imposed and additional reductions have been made in such areas as grants and contracts administered by the National Clearinghouse on Election Administration, travel, and outreach activities by Commissioners and staff.

Although financial exigencies have largely precluded the Commission from undertaking the long-range planning and policy-making which would be desirable, there have been some very significant accomplishments since the Commission opened its doors only seven years ago, the most important of which is facilitation of the full disclosure of campaign finance information.

Before the establishment of the Commission, responsibility for administration of the Federal Election Campaign Act was shared by the Secretary of the Senate, Clerk of the House of Representatives, Comptroller General, and Department of Justice. It is estimated that in 1973, at a time when there was little disclosure, there were no regulations or advisory opinions, and enforcement was almost totally lacking, the amount of money devoted to the FECA was $4.7 million. When current dollars are adjusted for inflation, this is approximately the same amount as the Commission is now receiving. With this funding, we are able to meaningfully enforce the laws and assure complete public disclosure of information.

1980 was the third election cycle in which the Federal Election Commission participated. It represented the second opportunity for administering the public financing of presidential elections. The Commission was responsible in 1979-80 for assuring the proper use of over $100 million in public funds for the financing of presidential primary and general election campaigns and the major party conventions. Spending for the 1979-80 election campaign as shown on reports filed with the Commission totalled over $800 million. Remembering that campaign finances must be reviewed both as receipts and expenditures, the cost to the Federal Government for administering the public financing of presidential elections, as well as disclosing, monitoring, and providing guidance with respect to all federal elections over this two-year period, was less than one percent of the reported financial activity.

In an effort to ensure full disclosure of campaign finance activity and to assist the public, press and political committees, the Commission's staff was involved in over 100,000 informational contacts during the 1980 election year alone, including helping visitors and callers and responding to other requests for assistance. As we entered 1982, approximately 3.7 million pages of campaign finance documents were available for public inspection. The demand for assistance from the Commission has increased continually. Regrettably, our resources have not.

For the Federal Election Commission, Fiscal Year 1983 is important with respect to both the 1982 and 1984 elections. Early in the Fiscal Year the Commission's attention will be primarily focused on the activities incidental to the nearly 500 general election contests for House and Senate seats. As the year progresses, many of the Commission's resources will be devoted to a detailed review of reports, required audit and enforcement activities, and preparation of computer-based analyses of financial activity for public release.

Later in the fiscal year, Commission activity will become increasingly directed toward the 1984 elections. In FY 1983, as early as January 1983, candidates for the Presidency will be eligible to submit requests for matching funds for certification to ensure receipt of public money early in calendar year 1984. This will also be an important time in terms of educating potential candidates, as well as political committees.

The breadth of Commission activity in Fiscal Year 1983 will depend in large part on what happens in FY 1982. In December 1981, the Commission adopted a tentative FY 1982 Management Plan allocating $9,365,000, the appropriation provided by the first Continuing Resolution. Because of the uncertainty regarding final funding, no revised Management Plan has been approved. In order to arrive at our $9,880,000 request for FY 1983 the Commission, rather than working from this initial Management Plan, examined the staffing levels projected as of April 1, 1982. This staffing pattern was then carried forward with only minor changes to serve as the basis for the FY 1983 request.

The $900,000 proposed increase from the FY 1982 Continuing Resolution appropriation level to FY 1983 is attributable to a number of factors. We have no control over many of these costs. In order to maintain staffing levels through FY 1982, consideration is being given to agency-wide furloughs which would save up to $184,000. In FY 1983, the recently-approved Executive pay raise will cost the Commission $35,000 more than this year because it will be in effect for a full rather than part of a year. The Commission will be obligated to pay $84,000 more because of employee within-grade salary increases. Travel costs will increase from $131,000 to $210,000. Part of the additional $79,000 will be used to expand our outreach activities, such as seminars to assist candidates. We have been unable to sponsor any such seminars outside Washington, D.C. since 1980. There is a clear demand for such activity, as demonstrated by a Washington, D. C. candidate assistance seminar scheduled for

April 2, 1982. Because of the response received, the seminar will be repeated on two additional dates.

The Clearinghouse on Election Administration, the budget of which has been drastically curtailed in recent years, will be allocated $27,000 to restore state workshops and research projects discontinued in FY 1982 due to lack of funds. Building the Audit Division staff back to 24 people in the second half of the fiscal year would cost approximately $85,000. A large portion of the $88,000 increase in printing and publications and the $32,000 increase in training will go for activities planned for FY 1982 but deferred for budgetary reasons. Replacement of some equipment which has been used since the establishment of the Commission, particularly in the Public Records Office, will cost $57,000 in FY 1983. $30,000 will be utilized to assess the adequacy of the Commission's automated data processing contract in anticipation of renegotiation of the contract in FY 1985. A contract to provide for entry of campaign finance information from reports into the computerized disclosure system accounts for an additional $219,000.

At the present time, copies of reports, microfilm, and computer tapes are sold to the public at the Commission's cost. However, instead of the funds being used to reimburse the Commission for its expenses in producing the materials, they are credited to the General Treasury. The effect on the Commission of selling materials is thus the same as if we gave them away. The more successful we are in this aspect of disclosure, the greater the adverse impact on our budget. It is the Commission's belief that money generated through the sale of materials should be used to reimburse us for our costs, thus assuring that all of our annual appropriation will be applied to the purpose intended.

Thank you, Mr. Chairman. The Commission appreciates your consideration of these requests for FY 1983 and FY 1982. We would now be pleased to respond to any questions which you may have.

BUDGET REQUEST

Mr. REICHE. Our message is brief. The effect of operating under the continuing resolution at a level of $8,990,400 has left the Commission considerably unmanned as we become immersed in the 1982 campaign.

If the pay supplemental request is not approved, there is the probability that we will have to consider furloughs of most, if not all, of the Commission's employees, just at a time when we should be fully staffed to handle the 1982 election.

When viewed against the background of successive decreases during each of the last 3 years, in terms of the real dollars available to the Commission, and also against a 7-percent decrease in the number of absolute dollars available to the Commission during fiscal 1982, our situation is, frankly, critical.

We have repeatedly mortgaged our future by deferring programs and delaying equipment replacement. Now there is the possibility of a freeze of appropriations for ourselves, along with others, at the low figure of $8,990,400.

The impact upon the Commission, if that were to happen, would be devastating. I realize that we have our critics, as is inevitable with an agency of this type. But I would suggest, Mr. Chairman, that the Commission has accomplished much in the short space of 7 years. The level of campaign finance disclosure in this country during that time, and the availability of such information to the public, has increased markedly. All of this has been accomplished at an expenditure roughly comparable to that which was being expended prior to the creation of the FEC.

We have made a good start. All we seek is the bare financial minimum to discharge most of the functions which have been assigned to us by the Congress.

At this time I would like to introduce Commissioner Danny Lee McDonald, who is Vice Chairman of the Commission and Chairman of our Budget Task Force. He will discuss briefly some of the details of the fiscal 1983 request, following which both he and I and Commissioner Joan Aikens, on his left, Vice Chairman of the Budget Task Force and one of our original Commissioners, will be happy to answer any questions you may have.

We also have with us today our two senior staff officials, our Staff Director, B. Allen Clutter; and our General Counsel, Charles Steele.

Thank you, Mr. Chairman.

Senator ABDNOR. Thank you.

We are happy to have Mr. McDonald. You may go right ahead.

Mr. McDONALD. Thank you, Mr. Chairman.

I will be very brief.

I would like to point out that we are merely seeking the level which OMB has recommended, $9,880,000. As the Chairman has pointed out, we find ourselves at a level of $8,990,400 currently under the continuing resolution, and we are hopeful that we will be able to get a supplemental of $183,900.

Senator ABDNOR. Is that how much it is in the supplemental budget?

Mr. McDONALD. Yes, for 1982, that is correct. It reflects one-half of the salary increases, Mr. Chairman.

Senator ABDNOR. That just covers the rate, is that correct?

Mr. McDONALD. Yes, sir, Mr. Chairman, and only one-half of that.

Senator ABDNOR. Very good. I am sorry to interrupt you.

Oh, is that all?

Mr. McDONALD. Yes, sir.

Senator ABDNOR. Ms. Aikens?

Ms. AIKENS. I have no statement, Mr. Chairman. We will be happy to answer any questions, and we will submit anything you would like for the record.

Senator ABDNOR. How much, so far this year, fiscal year 1982, have you spent in research contracts? Have you put out any funding in that area?

Mr. McDONALD. We have spent none at all in that area, Mr. Chairman.

Senator ABDNOR. Are there any thoughts about doing so in the future? You are not planning to?

Mr. McDONALD. The only thing that comes to mind is our data processing contract, that is ongoing. We are also considering a study about data processing for next year. I am not sure that that is exactly what you are addressing.

Senator ABDNOR. Well, that is not really research data, that is for the efficiency of your office.

Mr. McDONALD. Yes.

Senator ABDNOR. Do you have any contracts out of consulting services?

Mr. McDONALD. Not at the present time.

Senator ABDNOR. Do you have training activities going on?

Mr. McDONALD. We had $5,000 set aside this year, but none of that money has been used for training, because of the fund shortage.

Senator ABDNOR. If this supplement goes through, I am sure it will, it is a matter of time, it brings it over $9 million?

Mr. McDONALD. Yes, that is correct.

Senator ABDNOR. It would still be about $365,000 to $366,000, what you are shooting for?

Mr. McDONALD. Yes, sir, that is correct. With the pay supplemental, we would receive $9,174,300 for fiscal year 1982. The supplemental is one-half the $368,000 cost of the pay raises.

Senator ABDNOR. We have a figure here which is asking about—it says that agency request for $37,000 for training, is that correct?

Mr. McDONALD. Yes, that is correct. That is in the 1983 budget.

Senator ABDNOR. And your ADP contract is about $700,000?

Mr. McDONALD. Yes; that is an ongoing contract.

Senator ABDNOR. That is ongoing?

Mr. McDONALD. Yes.

Senator ABDNOR. Who is the contract with?

Mr. McDONALD. It is the National Data Corporation out of Massachusetts.

Senator ABDNOR. We were wondering, what is the state of your agency now? Last year you will remember there was several proposals being tossed around by Democrats and Republicans.

Is there anything going on in that respect—in the Senate Rules Committee, I think?

Mr. McDONALD. Not anything that I am aware of. You are the final committee that we are to appear before, and things seem to be pretty well on track.

Senator ABDNOR. I do not know, either. I was wondering where we were from last year. We might have had the budget through this year, if we had not gotten hung up on that issue last year. We were ready to go. I just wondered if there was any more of that going on.

Mr. McDONALD. No; I am pleased to say that things seem to be relatively stable, and I am pleased to say that I missed last year's activities.

Senator ABDNOR. Well, we thank you people for coming.

Mr. McDONALD. Thank you, Mr. Chairman.

Senator ABDNOR. There is a vote on the floor, so I am going to have to step away for a second, but I think the next committee could come up.

[A brief recess was taken.]

ADMINISTRATIVE CONFERENCE OF THE UNITED STATES

STATEMENT OF LOREN A. SMITH, CHAIRMAN

ACCOMPANIED BY:
STEPHEN L. BABCOCK, EXECUTIVE DIRECTOR
RICHARD K. BERG, GENERAL COUNSEL
JEFFREY S. LUBBERS, RESEARCH DIRECTOR

INTRODUCTION OF ASSOCIATES

Senator ABDNOR. Welcome to the committee. This afternoon we have the Chairman of the Administrative Conference of the United States, and we appreciate your attendance here today.

We got ourselves a little out of order by moving along here rather rapidly, and now I see I have got another vote here before I got back in my chair, but we are going to start out anyway, and of course, we have Mr. Van Kirk who will continue our session here if I have to leave.

So you just go ahead and introduce your colleagues.

Mr. SMITH. Mr. Chairman, thank you very much. I am glad to be here.

The first time we met I was somewhat, I feel, like a South Dakotan. I worked on Bob Hirsch's Senate campaign in 1972, as research director, I lived in Yankton.

Senator ABDNOR. I hope you enjoyed it.

Mr. SMITH. It was a great place.

Senator ABDNOR. I see him very frequently. He is a fine gentleman.

Mr. SMITH. I would like to introduce my staff: Steve Babcock, Executive Director and Chief of Staff of the Conference, he is to my right; and to my left is Richard Berg, General Counsel and Executive Secretary; and to Mr. Berg's left is Jeff Lubbers, Acting Research Director. So we have five titles among three people, it is a way of saving some money.

We are pleased to have this opportunity to appear before this committee to support our fiscal 1983 budget request and our fiscal 1982 pay raise supplemental.

PREPARED STATEMENT

I understand that my prepared statement will be made a part of the record, and I will summarize it.

Senator ABDNOR. I assure you that it will.

[The statement follows:]

STATEMENT OF LOREN A. SMITH

My name is Loren A. Smith, and I am the Chairman of the Administrative Conference of the United States. I am accompanied here today by Stephen L. Babcock, the Executive Director of the staff of the Conference, by Richard K. Berg, our General Counsel, and by Jeffrey S. Lubbers, our Acting Research Director. I am pleased to have this opportunity to appear before you today in support of the President's fiscal year 1983 budget request, in the amount of $1,339,000, for the Administrative Conference. The President has also proposed a fiscal year 1982 pay raise supplemental request for the Conference in the amount of $52,000, which I also hope you will approve.

At this point I would like to briefly describe the activities of the Conference in the year since we last appeared before you. Then I will tell you how we propose to use the funds here requested in fiscal year 1983.

As you may know, I became the Chairman of the Administrative Conference on July 7th of last year. My first task was to commence the process of planning for the December plenary session. Our plenary sessions, usually held semi-annually, are the times at which all ninety-one of our members meet to deliberate and vote on proposed Conference recommendations.

That plenary session did take place on December 10th and 11th of 1981, and it produced two important formal recommendations: one entitled Procedures for Assessing and Collecting Freedom of Information Act Fees, and a second setting forth the Conference members' views on current versions of the Bumpers Amendment. Both of these recommendations have, I think, made substantial contributions to the legislative debates on the pending Freedom of Information Act and Regulatory Reform bills. A third proposed recommendation, on the very controversial "confidential business information" exemption to the Freedom of Information Act, was re-committed to the relevant standing committees of the Conference, and will be considered again at the upcoming plenary session that we have scheduled for June 17th and 18th.

At the December plenary session we also were privileged to have Vice President Bush as a speaker. The Vice President assured our membership that the Administration supports the concept of the Administrative Conference, and he made three specific suggestions on how the Conference could contribute to the efforts of his Task Force on Regulatory Relief: by devising better procedures to handle State-Federal relationships (more specifically, the disputes that arise in the course of those relationships); by providing more assistance to the Executive Branch in legislative drafting and analysis on procedural matters, and by pursuing alternative and less-burdensome ways (such as the use of regulatory negotiation) to develop new regulations.

The regulatory negotiation concept is one that the Conference had already begun to consider, and we were privileged, on the morning of the second day of our December plenary session, to be addressed by Senator William V. Roth, Jr., of Delaware, on the subject of his pending bill, S. 1601, the Regulatory Mediation Act of 1981. Senator Roth urged our membership to carefully consider the concept, and answered a number of questions from the floor on the details and implications of the provisions of his bill.

We are, I might add, responding to Senator Roth's request. Our own project on regulatory negotiation is one of the four items that our members will be considering at the June plenary session: the others being a proposal on grants disputes resolution procedures, the Freedom of Information Act confidential business information recommendation and a proposal (which has been under consideration by one of our standing committees for two years) on the regulation of carcinogens.

We have also continued work on our implementation, advisory and consultative, and clearinghouse and educational activities since we were last before you. On the implementation front, we are especially pleased that, in part through the efforts of an ad hoc committee of our members, our "Race to the Courthouse" recommendation, adopted in December of 1980, has been incorporated in both the Senate and House Omnibus Regulatory Reform bills. Our advisory and consultative activities have included informal conferences on various regulatory reform matters, and advice on particular matters to several agencies—CPSC, GAO, NOAA, EEOC and OSHRC.

I believe that we also can say that we have satisified Congress' expectations, within the limits of our resources, in our special statutory assignment under the Equal Access to Justice Act, which was enacted in October of 1980 and became effective on October 1 of 1981. As you may know, Congress told all affected agencies to consult with us when adopting their own regulations to handle fee applications, and we decided to promulgate a set of model rules to guide the agencies. The proposed model rules were published in March of last year and, after considering comments from agencies and members of the public, a final model was published in June of 1981. The model was widely followed by the thirty-four affected agencies, and we received many favorable comments from agency staff, to the effect that our model rules reflected a full and fair consideration of the issues, and saved affected agencies much of the extensive time that each of them would otherwise have had to spend researching and considering those issues on an individual basis.

The Chairman of the Conference was also directed by the Congress to establish a reporting system for the agencies and to make annual reports to the Congress on how the Act is working. I am pleased to report that we did develop such a system, that it is now in place and working, and that we recently provided a short interim report to Congressman Kastenmeier for his use in connection with oversight hearings that were held in March of this year by the House Judiciary Committee's Subcommittee on Courts, Civil Liberties, and the Administration of Justice, which he chairs.

I have provided you with a copy of both our draft and final model rules on the Equal Access to Justice Act, in case you are interested in the issues raised and in how we dealt with them.

Finally, I have transmitted to you copies of the two recommendations that the Conference has adopted in the last year (Recommendations 81-1 and 81-2), which I mentioned earlier; a copy of a report, "The California Office of Administrative Law," which was distributed in 1981 to interested Administration officials and Congressional staff, and a bound copy of our consultant's reports and Conference recommendations for the year 1980. (A similar volume for the year 1981 is ready for printing and is being held until funds for publication become available.)

Our appropriation for the current fiscal year is now $1.051 million. If our $52 thousand pay raise supplemental request is granted, the total of our funds for this fiscal year will be $1.103 million—a figure that represents a 5% decrease from our funding for fiscal year 1981 of $1.167 million. We have reacted to this decrease in funding by reducing the number of staff personnel (principally, by not hiring an attorney to replace our Research Director, who resigned last September) by putting off various deferrable expenditures, and most importantly, by spending virtually no current year money on commissioning new research: we are thus, in a sense, now living off "research capital" from previous years without being able to start projects that will be completed in future years.

The amount that we request for fiscal year 1983—$1.339 million—represents a 7% successive annual increase over our appropriation two years ago — which was $1.167 million for fiscal year 1981. If this money is appropriated, we thus will be able to correct the drop in our resurces experienced during the current year, and will be able to regain our former personnel strength and restore our research program to its pre-fiscal year 1982 level. Indeed, we will have sufficient funds to expand our research activities over the level undertaken in most prior years, and we are now in the process of considering possible projects on a number of useful subjects. These include, in addition to projects in the Federal/State relationships matters mentioned previously, the following:

- an evaluation of the Federal employee financial disclosure laws (principally the Ethics in Government Act of 1978)
- a compilation or "source book" on the key issues in administrative procedure and governmental process that the government will be facing in the years ahead
- needed reforms in INS procedures
- re-examining the dichotomy between independent and Executive agencies
- assisting the integration of regulatory analyses into the rulemaking process
- analyzing procedural problems associated with transferring categorial grants into block grants
- considering alternatives to legislative veto for increasing Congressional control of the regulatory process
- exploring methods to facilitate agency consideration of the use of user fees
- various projects to assist in the implementation of the Omnibus Regulatory Reform legislation (if it becomes law)

In addition to increasing our research activities, I would like to see the Conference increase its efforts to become more of a focal point for government-wide concerns about agency management, procedure and process. As I see it, the Administrative Conference should be a catalyst—a stimulant to creative thinking and experimentation in administrative reform. As you may know, I have been made a member of the Cabinet Council on Legal Policy. This Council, Chaired by the Attorney General and including several Cabinet Secretaries and senior White House officials, meets fairly regularly to discuss important legal issues. I hope to use our expertise on procedural issues to advantage in this context, in furtherance of the concept of increasing the visibility and utility of this agency.

A second endeavor along this line is the new group of independent regulatory agency Chairmen—which I am calling the Council of Independent Regulatory Agencies—that I recently established. (The Chairman and all Members of this Subcommittee recently received a copy of our press release on this new body.) I believe that the Chairmen of these agencies will appreciate the opportunity to exchange ideas on administrative questions and management techniques, and to receive briefings on new issues from senior people within the Administration and from the Congress. This group held its first meeting on Friday, April 16th, in the White House, and President Reagan personally appeared to meet the Chairmen and to give the project his support. I intend to take my role as the Chairman of this group very seriously, as I am convinced that all the independent agency heads will benefit from the opportunity to explore issues of mutual concern with each other. I will use a small portion of the resources requested for the Conference for fiscal year 1983 to pursue these and similar "clearinghouse" activities.

Finally, I intend to continue to emphasize our implementation and consultative efforts. As you know, the recommendations of the Conference are advisory only. In fact, in 1964, when our organic act was being considered in Congress, a provision in the bill that would have directed us to report agency non-compliance with our recommendations to Congress was deleted because it was thought that such a provision might give this agency too much power. (Report of the House Committee on the Judiciary on S. 1664, 88th Cong., 2d. Sess., at p. 3). Thus it is clear that the Congress does not intend the Conference to attempt to exert pressure on agencies—to coerce them into adopting our recommendations. I do think, however, that this agency sometimes tends to "hide its light under a bushel," and that we should devote more energy to attempting to publicize and explain our views on key issues — to the agencies, and the White House, as well as on Capitol Hill. I thus intend to use another portion of our requested resources to increase our capacity in this area.

Our efforts here could also lead to new assignments like the one that the Congress gave us in the Equal Access to Justice Act, and has given to us in other legislation in the past. I regard the Equal Access assignment as a good thing; for the Conference — because it has increased our visibility; for the agencies — because our model rules clearly saved the agencies, collectively, a sum greater than our whole fiscal 1982 appropriation; and for the public — because of the money saved and because the rules we developed are in fact fair and reasonable, and support the Congressional purpose underlying the Act. I hope that we will receive future assignments of this kind, and that an increase in implementation activities will also further that goal.

Mr. Chairman, this concludes my remarks. We will be pleased to answer any questions that you or your colleagues may have.

JUSTIFICATION

ADMINISTRATIVE CONFERENCE OF THE UNITED STATES
JUSTIFICATION OF THE FISCAL 1983 BUDGET REQUEST

The Conference's FY 1983 budget request is for $1,339,000. We are also asking for a pay raise supplemental appropriation for FY 1982 in the amount of $52,000. The Conference will use its FY 1983 resources in the following five areas.

The first, and most important, activity of the conference is the research and development of formal recommendations. This activity, in which particular improvements are studied by consultants working with the staff under the aegis of one of the Conference's nine committees, is the Conference's core activity. While new projects for FY 1983 have not yet been selected, several are being considered for possible commissioning. The Conference proposes to devote 47% of its budget, amounting to about $629,000, to its research activities. These activities are important not only for the recommendations that they produce but because they are the primary source of data and principles on which the Conference relies in performing its advisory, clearinghouse, and consultative activities.

The second area of Conference activities consists of efforts to assure the implementation of current recommendations and to obtain and maintain comprehensive and current information pertaining to the implementation of the Conference's past recommendations. Funding at the requested level will permit the Conference to devote 15% of its budget, equivalent to $201,000, to implementation activities. This will allow the Conference to increase its level of activities in this area.

Clearinghouse and educational activities also will be increased in fiscal 1983: the Conference will spend $174,000, equal to 13% of its funds, in this area. Activities will include staff support for the Chairman's participation in the Cabinet Council on Legal Policy, the Council of Independent Regulatory Agencies, and other government-wide clearinghouse and educational activities to be conducted as needed and appropriate.

The Conference's statistical program will operate at a minimal level: we anticipate that it will consume 5% of our resources, amounting to $67,000. The principal activity in this area will be the collection of information on the Equal Access to Justice Act and the preparation of an annual report to Congress, as that Act requires.

The Conference intends to devote 8% of its resources, amounting to $107,000, to its advisory and consultative activities. These include commenting to Congress, OMB, and the agencies on the procedural aspects of proposed legislation, offering assistance to agencies with respect to proposed procedural changes that they may wish to adopt by regulation, and assisting in the implementation of the procedural aspects of new laws. Funding at the requested level will enable the Conference to continue to answer inquiries and requests for advice on a time-available basis.

Finally, the Conference will allocate $161,000, or 12% of its resources, to general management. This expense includes the salaries (or portions of salaries) and expenses of staff not directly engaged in the five direct program areas.

OBJECT CLASSIFICATION (in thousands of dollars)

Identification code 95-1700-0-1-751	19 81 actual	19 82 estimate	19 83 estimate
Personnel compensation:			
11.1 Permanent positions	620	615	719
11.3 Positions other than permanent	44	28	—
11.5 Other personnel compensation	16	10	10
Total personnel compensation	680	653	729
Personnel benefits:			
12.1 Civilian	58	61	66
21.0 Travel and transportation of persons	27	40	43
23.1 Standard Level User Charges ~~23.0 Rent, communications, and utilities~~	57	103	104
23.2 Communications, Utilities & Other Rent	53	57	61
24.0 Printing and reproduction	61	36	65
25.0 Other services	172	56	224
26.0 Supplies and materials	32	38	40
31.0 Equipment	7	7	7
99.0 Total obligations	1,147	1,051	1,339

SALARIES AND EXPENSES

Identification code 95-1700-0-1-751	19 81 actual	19 82 estimate	19 83 estimate
Total number of full-time permanent positions	22	21	21
Total compensable workyears:			
Full-time equivalent employment	22	25	25
Full-time equivalent of overtime and holiday hours	0	0	0
Average ES salary	$ 50,112	$ 58,500	$ 58,500
Average GS grade	10.33	10.12	10.12
Average GS salary	$ 25,949	$ 27,765	$ 29,709

DETAIL OF PERMANENT POSITIONS

	1981 actual	1982 estimate	1983 estimate
Executive Level II	1	1	1
ES-5	1	2	2
ES-4	2	1	1
Subtotal	4	4	4
GS/GM-15	1	1	1
GS/GM 14	4	3	3
GS/GM-13	2	2	2
GS-12	1	1	1
GS-11	2	2	2
GS-10	1	1	1
GS-9	1	1	1
GS-8	1	1	1
GS-7	2	2	2
GS-6	1	1	1
GS-5	1	1	1
GS-3	1	1	1
Subtotal	18	17	17
Total permanent positions	22	21	21
Unfilled positions, end of year	-3	-2	—
Total permanent employment, end of year	19	19	21

SUMMARY STATEMENT

Mr. SMITH. The Conference has been quite active in the year since we last appeared before you. This past December's plenary session produced two formal recommendations. The Vice President also addressed our members, and expressed the administration's confidence in our efforts.

At the upcoming plenary session in June, our members will consider four important proposals: on the confidential business information exemption to the Freedom of Information Act, on the use of regulatory negotiation, on grants disputes procedures, and on the regulation of carcinogens. By the time of that session we will also have issued our new manual for ALJ's.

I have been active as a member of the President's Cabinet Council on Legal Policy; and, more recently, as the chairman of the newly formed Council of Independent Regulatory Agencies. That new informal group held its first meeting in the Cabinet room at the White House on April 16, with the President. The group will be meeting regularly to consider matters of common concern to its members—the chairmen of the 14 major regulatory agencies.

The Congress gave us two specific assignments in the new Equal Access to Justice Act, which went into effect last fall, and I want to briefly report on our performance. First, Congress directed all agencies to consult with us when adopting uniform regulations to implement that act. We developed a draft set of model regulations, with the assistance of a task force of interested agency and Hill staff, which was published in March of last year. After considering further comments from the agencies and from the public, we published a final rule in June.

This effort clearly did promote the congressional goal of uniformity, and it saved the 30-odd affected agencies a sum greater than our whole annual appropriation.

The Congress also told us to collect information on the act and to construct an annual report. We developed reporting forms, got the system in place as soon as the act became effective, and recently gave a brief interim report to an interested House subcommittee.

My principal emphasis for the coming fiscal year will be to further increase the role of the Conference as a catalyst for experimentation and new ideas on regulatory and administrative reform. I also want to step up our implementation efforts and to continue the present research program.

Mr. Chairman, you will note that the President's budget proposes a modest increase in our resources for fiscal 1983—to $1,339,000. This reflects the fact that the Conference—consisting, as it does, principally of volunteers—is a highly cost-effective organization. I know that you will consider our request carefully. I hope that the result of your review of our request—and, more important, of our record—will be that you will agree with the view that the Conference can, and will, use the resources here requested in ways that will save the Government substantially more than the amount of our appropriation.

I and my staff will be happy to answer any questions that you do have.

Senator ABDNOR. Well, I am going to go down and vote. And I want to keep this meeting moving. I remember what I did the last time, I brought people out, and then we did not have our hearings. We determined that we ought to go through with it now. I will just turn this over to Mr. Van Kirk, and be back shortly.

Mr. SMITH. Thank you very much, Mr. Chairman.

EMPLOYMENT LEVELS FOR 1983

Mr. VAN KIRK [presiding]. Do we read your budget correctly, that you plan to increase the number of employees? What is your personnel complement?

Mr. SMITH. Now we have 21 employees, of which 18 are full time, and 3 are part-time employees.

Mr. VAN KIRK. What do you have planned for 1983?

Mr. SMITH. We plan to add one employee.

Mr. VAN KIRK. So you would go to 23?

Mr. BABCOCK. Our proposed ceiling for fiscal 1983 is 22 employees, no—I am sorry, 21 full-time permanent positions. But now we have currently, we have, on a full-time equivalent basis, about 19½, and we think we will add 1, or possibly 2 persons, if our request is approved. Clearly one professional staff person, possibly one clerical.

Mr. VAN KIRK. What was it in 1981?

Mr. BABCOCK. In 1981 we were authorized at a higher level, and in fact, during that year ran at about 20½, and we have come down in 1982. Our 1982 budget represents a decrease over 1981, and when that is coupled onto the salary increases, we are currently operating with one less professional staff person.

INCREASES IN EXPENSES FOR 1983

Mr. VAN KIRK. How much more do you have scheduled for travel next year, compared to this year?

Mr. BABCOCK. It is not much. Let me give you the exact number. For this year we have $40,000 scheduled, and for next year, $43,000. That represents our guess at how air fares are going, and that may be understated, as the carriers seem to be ending some of the discount programs.

Mr. VAN KIRK. In 1981 you had $57,000 budgeted for standard level user charges, and then you jumped to $103,000 this year?

Mr. BABCOCK. That is correct.

Mr. VAN KIRK. And you are going to go to $104,000 next year?

Mr. BABCOCK. That is correct, sir.

Mr. VAN KIRK. How did you accommodate that big jump?

Mr. BABCOCK. What do you mean? Why did it occur?

Mr. VAN KIRK. No; not why it occurred, but how did you accommodate it? You were the only agency that I know of that did not squawk.

Mr. BABCOCK. Well, I do not know what others did. Certainly I have heard lots of complaints from other agencies. They all had problems adjusting to these huge increases that the General Services Administration has levied on us.

As I say, our staffing levels are currently down, our research program is virtually cut off for the fiscal year, and that is one of the kinds of expenses that we have had to absorb.

Mr. VAN KIRK. Right. I was leading up to the fact, I was going to thank you, because you were one of the few agencies that did not call the Appropriations Committee and complain about it.

Mr. BABCOCK. It never occurred to me. Next time I will, sir.

Mr. VAN KIRK. No; I am sorry I brought the matter up.

Mr. SMITH. We are a very civil group.

Mr. VAN KIRK. All right.

I think that is all we have, Mr. Smith, unless you have something else for the record.

Mr. SMITH. No; we have submitted our material, and any further questions we will be happy to answer, personally, or in writing, anything else that you want us to submit.

Mr. VAN KIRK. Thank you.

ADVISORY COMMISSION ON INTERGOVERNMENTAL RELATIONS

STATEMENT OF CARL W. STENBERG, ASSISTANT DIRECTOR, POLICY IMPLEMENTATION

ACCOMPANIED BY:

DAVID B. WALKER, ASSISTANT DIRECTOR, GOVERNMENT STRUCTURES AND FUNCTIONS

FRANKLIN A. STEINKO, BUDGET AND MANAGEMENT OFFICER

PREPARED STATEMENT

Mr. VAN KIRK. The next witness will be the Advisory Commission on Intergovernmental Relations, and I understand that Senator Durenberger will not testify.

Mr. STENBERG. Thank you very much. It is good to be here.

With your permission, we would like to submit the full statement for the record.

Mr. VAN KIRK. It will be accepted in total.

[The statement follows:]

STATEMENT OF SENATOR DAVE DURENBERGER

I am delighted to appear before you today to testify on behalf of a Commission I am pleased to serve on and value highly -- the Advisory Commission on Intergovernmental Relations. With me today are S. Kenneth Howard, currently budget director for the State of Wisconsin, who will become ACIR's Executive Director later this month, and Carl W. Stenberg, assistant director for policy implementation, who has served as acting executive director over the past three months. Also with us is Franklin A. Steinko, ACIR's budget and management officer.

ACIR's Part in Rebalancing Federalism

Federalism in 1982 moved near the top of the nation's domestic agenda for the first time in many years. The President's call for rebalancing federalism led to an avalanche of both criticism and praise. It focused the attention of policymakers and the media on the problems inherent in our highly intergovernmentalized system. And it spawned a number of new ideas and approaches for dealing with issues of governmental responsibility, fiscal capacity and accountability.

As a long-time adviser on federalism, the ACIR has been called upon to provide assistance to the Congress, the Administration, state and local officials, public interest groups, the press and others to diagnose the problems, illuminate the issues, and offer constructive suggestions for change. It has analyzed various proposals to alter our system of shared responsibilities and has shed light on a number of questions such as: What should be the federal government's role? Are the states capable of assuming more program responsibilities? Can the states and localities bear the fiscal burdens associated with assuming added responsibilities?

ACIR's recent analysis and recommendations seek to answer these questions, and the Commission's work has been widely cited. It is especially noteworthy that President Reagan, in his January State of the Union message, quoted the Commission's findings that the federal government's influence and activities have become "more pervasive, more intrusive, more unmanageable, more ineffective, more costly and above all, more unaccountable."

What is needed to restore balance in the federal system, the Commission reported in June 1980, is a major "sorting out" of functional roles. As the primary step, it believes the federal government should assume the fiscal responsibility for welfare and other income maintenance programs, and the states should assume responsibility for full financing of public education. As you know, the President has made a different "sorting out" proposal.

In addition, the Commission recommended that the number of federal programs be reduced, where possible, through termination, consolidation and devolution to states and local governments and the private sector.

As a guide for policymakers in sorting out these roles, the Commission developed a set of criteria by which the federal role can be assessed. The federal government should be involved in those domestic activities which have (1) clear and essential federal purposes; (2) program histories in which federal initiatives and involvement have been predominant; and (3) large federal funding relative to the state-local contribution. The first of these criteria is, of course, largely a value judgment; the other two are practical and measurable concerns.

Whether states are able to handle additional responsibility -- another key question frequently posed in Washington and elsewhere -- is also an area where ACIR has conducted relevant research. A recent ACIR study concluded that states have come a long way in the past 20 years -- from the "fallen arches" to the arch supports of the federal system. In the legislative, executive, and judicial arenas, the improvements have been many. States now administer most of the grant programs proposed for devolution and currently fund major portions of key domestic activities. Thus the states, we feel, have the capacity. What we can't be so sure of is their will to use it.

And, finally, in answer to the question of ability to raise adequate revenues, I would point to another recent ACIR study, entitled Tax Capacity of the 50 States: Methodology and Estimates, which examines every state's tax capacity and effort using a representative tax measure to determine "tax wealth." This study illustrates increasing disparities among the states attributable largely to the ability of some states to tax energy resources such as coal and oil through the use of severance taxes or leases. I believe this issue of fiscal disparities is one of the most important -- and potentially most divisive -- issues facing our intergovernmental system today. In my view, we must initiate some program of fiscal equalization to alleviate these disparities.

As chairman of the Senate Intergovernmental Relations Subcommittee, I have repeatedly used ACIR's material on these and other related areas. ACIR's contributions to the debate (and hopefully the action) on rebalancing federalism have been invaluable.

Although clearly a major focus, the issues surrounding rebalancing federalism have not completely dominated the Commission's activities during the past year. For example, in other areas, ACIR has:

-- substantially completed a major study on the impact of federal regulations on state and local governments;

-- completed a state and local government financial management improvement project;

-- published the third volume in an annual series on state actions to help distressed communities;

-- started work on a study of local jails;

-- nearly completed a study of state severance taxation of energy and mineral resources;

-- embarked on a series of roundtables with state and local officials to discuss issues related to juvenile justice programs; and,

-- continued our timely study of financing local governments in the 1980s.

As part of its ongoing federal implementation function, ACIR has testified before Congressional committees and has provided materials and assistance, when requested, to both the Congress and the executive branch, on new federalism initiatives. Other federal level activities include tracking regulatory relief legislation, grant reform efforts, procedures for calling and conducting a constitutional convention, enterprise zone legislation, payments in lieu of taxes, and the possibility of establishing a new Hoover Commission.

At the state level, ACIR is monitoring the effects of federal block grants on relationships between the executive and legislative branches and state and local governments, as well as the impact of court decisions resulting from the block grants. In addition, the Commission is being called upon most often for advice concerning legislation on financial management, state legislative oversight of federal funds, restraint on mandates, local finance, sorting out functions, and state-local relations commissions.

All in all, in 1981, ACIR published a near-record 17 reports, four issues of our magazine Intergovernmental Perspective and one "In Brief." A list of these publications is appended to this testimony.

I might mention here a bill (S. 2329) sponsored by a member of this subcommittee, Senator Mattingly of Georgia, which calls for an "Efficiency Advisory Roundtable to assist the ACIR in its activities concerning the New Federalism." The roundtable would be composed primarily of "practitioners" -- those who administer the federal programs included in the President's turnback proposal -- and would hold a series of public hearings on the New Federalism across the country. A report on these hearings and the group's findings would be submitted to the President and the Congress. The budget figures before you do not reflect the additional responsibilities entailed in this measure. It is our understanding that if S. 2329 passes, a separate appropriations bill will be introduced to cover its implementation since the costs of carrying out the roundtables could not be borne by the Commission's FY 1983 requested appropriation.

ACIR's Appropriation Request

It seems ironic that at a time when the Commission's work is being cited extensively in the nation's federalism debate, the Commission itself has experienced substantial reductions in its budget. In FY 1982, under a continuing resolution, the Commission will operate with a budget of $1,681,000 -- a decrease of $141,000 from FY 1981.

In order to deal with this reduction, ACIR adopted a variety of budget-saving techniques, including releasing office space, reducing computer utilization and lease-purchasing rather than renting equipment. These actions resulted in reduced costs to the Commission for FY 1982 of $25,000 to $30,000. Other efforts to save money included greatly restricted unreimbursed staff and invitational travel, research contracts, and overtime -- saving another $15,000 to $25,000. ACIR also delayed, for the first time in 13 years, hiring doctoral candidates and recent graduates with master's degrees as ACIR fellows for one year of training and experience, thereby saving approximately $80,000.

These savings, unfortunately, were not enough. In March, ACIR notified three long-time staff members that they were to be terminated. This action was unprecedented in ACIR's history. Although I realize that many other agencies face similar staff reductions, ACIR's situation is especially difficult because of its small size and its highly specialized professional staff. (Of ACIR's 34 staff slots, only 10 are considered "support" staff.) It is especially worrisome in that these staff reductions could well affect the stability and confidence of what many have viewed as ACIR's most enviable asset -- namely, a highly motivated and competent staff that has had long experience with ACIR's intergovernmental role.

Although I believe that the staffing of committees, commissions, and agencies alike should be kept small and manageable, it appears that any further staff reductions would adversely affect the Commission's ability to achieve the mission assigned to it by the Congress. In my view this Commission and its work are too important to let this happen.

For FY 1983, ACIR is requesting an OMB-approved budget of $1.92 million. With this amount, ACIR believes it can operate a lean, yet productive, schedule of activities and research. With this budget, ACIR believes it can effectively deploy an adequate number of staff to assist in further efforts to improve the balance in our federal system. It can continue to carry out the Commission's work program as described in the project status report appended to this testimony. In addition to these projects and the Commission's continuous monitoring of federal-state-local relations, at least one major research effort will be launched in FY 1983.

ACIR's FY 1983 budget request extends a pattern of real budget shrinkage that goes back some 11 years. The following facts serve as illustration:

-- The FY 1983 request represents a small increase over ACIR's 1982 amount, which represented a 16% cut over the previous year's budget figure. In fact, the 1983 request is only $98,000 over ACIR's 1981 appropriations -- an increase of only 5.4%.

-- Of this proposed increase, $82,000 is attributable to costs fixed by Congress and others.

-- While ACIR's 1983 request shows a reduction in staff of two, it proposes no decrease in program activity over the level of the previous four years.

-- In 1982, ACIR had discretion over only $143,000 of its budget, the lowest amount in this category for 11 years. The figure for FY 1983, ($204,000) represents an increase of 12% over our 1982 continuing resolution money, despite much steeper rises in printing costs, a large item for ACIR.

I appreciate this opportunity to present testimony in support of the budget request of a commission which I, and others, value highly. I think its role is even more important today than it was 23 years ago when it was established. Although I recognize that federal spending must be restrained, and I fully support the movement to do so, ACIR's role in identifying and illuminating intergovernmental problems, and proposing solutions, is both unique and crucial. Thank you. We will be pleased to respond to your questions.

SUMMARY STATEMENT

Mr. STENBERG. I am Carl Stenberg, the Assistant Director, and now serving as Acting Director. Kenneth Howard, our new Executive Director will be joining us in May.

As a long-time adviser on federalism, the ACIR has recently been called upon to provide assistance to the Congress, the administration, State and local officials, public interest groups, press, and others, to diagnose problems, illuminate issues and offer recommendations for rebalancing our Federal system.

We have analyzed various proposals on shared responsibilities and we have shed light on a number of questions relating to the various new federalism initiatives of the administration, which are currently being considered, such as what should be the Federal Government's role in the Federal system, are the States capable of assuming more program responsibilities, and can the States and local governments bear the fiscal burdens associated with assuming added responsibilities?

All of this recent work comes in the wake of a very busy and productive year, during which the ACIR published a near record 17 reports, four issues of our magazine, Intergovernmental Perspective, and one "In Brief." A list of these publications is appended to the testimony.

It seems ironic that at a time when the Commission's work is being cited extensively in the Nation's federalism debate, the Commission itself has experienced substantial reductions in its budget.

For fiscal year 1982, under the continuing resolution, the Commission is trying to operate with a budget of $1,681,000—which represents a decrease of $141,000 from the present fiscal 1981 level.

In order to deal with this reduction, ACIR adopted a variety of budget saving techniques, which total over $135,000 in savings. These savings were not enough, unfortunately. In March we notified three long-term staff members that they were to be separated from the Commission. This action is unprecedented in our history.

Although we realize that many other agencies face similar constraints, and are reducing their staff levels, ACIR's situation is especially difficult because of our small size and the highly specialized nature of our professional staff.

I should note that of our 34 staff slots, only 10 are considered "support" staff. For fiscal 1983, ACIR is requesting an OMB-approved budget of $1,920,000. We would hope, in addition, that the committee would look favorably on our fiscal 1982 supplemental appropriation request for executive and civilian pay costs of $82,000. With these amounts, ACIR believes that we can operate a lean, yet productive, schedule of activities and research.

We thank you for the opportunity to testify and, of course, we would be happy to respond to any questions that you might have.

Mr. VAN KIRK. We were impressed that on page 9 of your statement you talked about having discretion over only $143,000 of your budget.

How much of that will be discretionary in fiscal year 1983?

Mr. STENBERG. I would like to ask Mr. Steinko, our Finance Officer, to respond to that.

Mr. STEINKO. We hope that would approach $200,000 in 1983.

Mr. VAN KIRK. What will account for the increase?

Mr. STEINKO. Excuse me?

Mr. VAN KIRK. What will account for the increase?

Mr. STEINKO. Full research program backup to force would allow for more use of temporary and intermittent personnel to cover the new federalism proposals, deregulation, and other projects that we are working on. Instead of trying to find a—I guess you would say a sugar daddy to print publications—we will be able to handle those ourself.

Mr. VAN KIRK. Has the ACIR published any papers or documents, or other blueprints or guidelines on how the States, in coming in under the concept of the new federalism, can increase their tax base?

In other words, if the Federal Government withdraws from certain areas, how the States can pick up those areas of new taxes.

Mr. STENBERG. Yes; in fact, over the last couple of years we have devoted a great deal of effort to looking at various questions having to do with the States' fiscal, as well as their management, capacities to shoulder more responsibilities.

With your permission, Dr. Walker could highlight this activity.

Mr. WALKER. My section has covered the nonmonetary side of this, that is what the States have done—the executive branch, the judiciary, the legislature, the bureaucracy—and how they have interacted with their localities—cities, counties, school districts, and towns.

But to get to your question, my other colleague, Mr. Shannon, on the fiscal side, over the past year and a half has done a very intensive study of different ways of gaging State revenue efforts; they call it the representative tax system. This approach is an excellent way, we think, of assessing State efforts in the light of their resources. It shows significant differences existing among the States. We have already put out a report on this particular topic, which has been disseminated fairly widely, and are working to update it.

Mr. STENBERG. We brought along a copy of Rebalancing Federalism, which includes the work that we have done on tax capacities of the States, and the work related to the new federalism proposals that have been offered.

Mr. VAN KIRK. Is there any five or six page outline in that packet that would show how States can increase their tax revenues? Or how would you suggest it?

Mr. STENBERG. Not in this packet, but in other material we have prepared. For example, our data on indicators, the per capita tax capacity and effort of each State, has been used by various organizations in discussions with the White House about the new federalism to discern the effects of their proposed shifts on the States and their localities.

We have a second action packet dealing with model State legislation which covers a wide range of tax and financial management issues. Some dozen bills were recently disseminated rather widely to the States.

Mr. VAN KIRK. What could we include in our record that was not too lengthy, that would be a blueprint that you have provided to the States, or published, which would indicate methods of revenue enhancement that the States could take to pick up the burden that is being dropped by the Federal Government?

Mr. STENBERG. Yes; we could submit the relevant parts of each action guide in a brief packet for the record.

Mr. VAN KIRK. Ten pages or less.

Mr. STENBERG. Yes.

Mr. VAN KIRK. Would you do that, and give it to Ms. Pastis?

Mr. STENBERG. Yes.

Mr. VAN KIRK. Thank you very much. I appreciate it.

Mr. STENBERG. Thank you.

Mr. VAN KIRK. And do you want Senator Durenberger's statement to be submitted for the record?

Mr. STENBERG. Yes; we would appreciate that.

Mr. VAN KIRK. We will do that, and send that to Ms. Pastis—oh, you already have that.

[The information follows:]

State-Local Revenue Systems

What They Should be and How They Can Get that Way

Over the years, the Advisory Commission on Intergovernmental Relations has monitored and made a number of recommendations to improve the nation's state-local revenue systems. In so doing, it has devised indicators of what a high quality state-local fiscal system should be, determined a measure of the ability of states and localities to raise own source revenues, and made a series of recommendations to improve the workings of the state-local revenue system. This guide describes some of those findings and recommendations, contains fiscal information on the 50 states and references relevant model state legislation.

1. In the aggregate, are states now generating sufficient revenues to finance the additional costs that would be imposed on them with takeover of major responsibility for AFDC and a number of other programs proposed in the "turnback" portion of the New Federalism swap?

Although the costs to states and localities are dependent on details of the federalism plan which have not yet been announced, we can make a rough guess that the proportion of state-local revenues that state tax systems should produce to assume added fiscal responsibilities would be around 70 or 80 % of state-local tax revenues. At the present time, the states' tax structure produces about 61.3% of total taxes although there are 13 states (mostly in the South) that produce in the 70-80% range. (See Table 1.) It is interesting to note, however, that there has been movement toward states assuming more of a dominant role. In 1971, for example, the national total was 54% and there were 10 states in the 70-80% range.

2. What would make up a high quality state-local fiscal system?

A high quality state-local fiscal system includes four major elements - balance, equity, political accountability and moderation. The balance should include a judicious mix of the three major state-local taxes -- property, income and sales tax. A balance is desirable because each tax has its unique strengths and weaknesses. Moreover, the harder the state pushes down on any one of them, the more obvious become its defects and the less apparent become its virtues.

-- In 1980 the state personal income tax accounted for nearly 17% of state-local tax collections although there were seven states that closely approximated the 25% standard. Interestingly, in 1971, the state personal income tax accounted for only 12% of all state-local tax collections and there were only four states that approximated this level of productivity.

The personal income tax is a "fair" tax since it permits a larger share of the tax burden to be adjusted to the size of the family through an exemption system -- a criterion typically disregarded by the property tax and violated by the sales tax. The unique ability of the income tax to treat individuals and households with equal income equally grows in importance as the margin between people's incomes and their consumer expenditures widens and as family homesteads become less and less indicative of taxpaying ability.

A broad-based flat-rate state income tax when combined with personal exemptions, thus, can pack both a heavy revenue punch and a substantial degree of progression. Graduated rates add progression in income tax liabilities and increase the responsiveness of income tax collections to economic growth.

-- The general sales tax should serve as the other major state tax capable of producing between 20 and 25% of total state-local tax revenue without imposing an extraordinary burden on low income families -- the exemption of food and drugs or the provision of income tax credits can go a long way toward pulling most of the regressive stinger from this tax.

The state sales tax now makes up nearly 20% of total state-local tax collections in the aggregate. In addition, 27 states exempt food and drugs from the sales tax; seven provide credit for food and drug purchases. In 1971, the state sales tax accounted for about 16% of total state-local tax revenue and only five states could meet both the productivity and anti-regressitivy tests in Fiscal 1971.

The number of items covered by the sales tax affects not only the amount of revenue the tax produces but also how the burden of the tax is distributed. Because low income people spend a greater fraction of their income than do high income persons, a tax on consumer purchases is inherently regressive. Excluding services from the tax base makes the sales tax even more regressive, since purchases of services become increasingly more important as one moves up the income scale.

Exemption of food makes the sales tax nearly proportional, although only at the loss of substantial revenue. The sales tax credit accomplishes the same end at much lower cost by returning a fixed sum to each person, regardless of income.

-- The local property tax, while continuing to serve as the principal revenue instrument for local government, should be able to pass two equity tests.

a. The full value test -- In order to help insure uniform assessments the state should bring local assessment levels up to the full value standard - in no case should the statewide level of assessments drop below 80% of current market value. At the present time no states appear to have met the 80% test although three are very close -- Alaska, Kentucky, and Oregon. Most states have a long way to go because the national assessment level is probably in the general neighborhood of 30% of current market value. Low fractional assessment will always provide a convenient graveyard in which assessors can bury their mistakes.

b. The anti-regressivity test -- A state financed "circuit-breaker" system should protect low income home owners and renters from property tax overload situations. The elderly home owners and renters should be shielded in a way so as to insure that they are not required to turn over more than 6 or 7% of total household income to the local residential property tax collector. 33 states have adopted various applications of the "circuit-breaker" principle.

3. How can these taxes be made "politically accountable?"

One route to political accountability is making sure that tax rate increases are the product of overt legislative action not the silent and automatic consequence of inflation.

Indexation of the personal income tax is a way to prevent inflation from automatically pushing taxpayers into higher tax rate brackets. (Eight states have now taken action on the indexation front -- Arizona, Colorado, California, Wisconsin, Minnesota, Iowa, Oregon and South Carolina.)

For the property tax, "truth in taxation" provisions that roll back tax rates automatically to offset large increases in assessments unless local legislative bodies advertise the need for a tax increase provide some degree of political accountability. (Since 1971, ten states have taken this full disclosure action.)

4. Is there danger in overreliance on certain taxes?

Clearly revenue modification is a goal for states and localities and states should avoid extremely high taxation, ACIR has developed what it calls a fiscal blood pressure which indicates current relative taxation as well as reflects the taxing trend. A "high and rising" fiscal blood pressure reading would probably indicate potential problems ahead. (See Table 2.)

5. Are the states currently fully taxing at their full capacity?

A newly published ACIR staff report sheds some light on this question. The report, Tax Capacity of the Fifty States: Methodology and Estimates (M-134), examines the ability of the states to raise taxes by applying a uniform set of tax rates against 24 tax bases. Because the same set of tax rates is used for every state, estimated yields vary only because of differences in underlying tax bases. The result is a measurement of "tax capacity" using what is called the representative tax system (RTS) approach. The range of tax capacity as measured by the RTS is extreme, from Alaska which is some 160% above the national average to Mississippi at 31% below average. (See Table 3.)

6. What about municipal finance?

As Table 4 illustrates, municipal finance has gone through a fundamental restructuring over the past few years. Particularly significant is the accelerating decline during 1977-1980 in the share of municipal revenues produced by the property tax. Given the reversals registered in the flow of federal and state aid, the long-term fall of the property tax might have been expected to abate if not end -- since city officials would work all their own source revenue instruments harder to take up the slack resulting from the aid for turnaround.

This acceleration in the decline of the relative importance registered by the property tax can be explained -- at least in part -- by the tax revolt, as manifested in the adoption of state restructions on local taxing and expenditure powers. Since the vast majority of the state restrictions relate only to the property tax, their effect is to tilt decisions of city officials in the direction of non-property taxes and user charges -- city revenue sources that quickened their upward pace in 1977-1980.

7. What other taxes are available to states and localities?

Clearly one taxing source available to localities -- and one becoming increasingly popular in recent years -- is the user fee.

In a preliminary attempt to get a handle on local revenue behavior for 1980 and 1981, the ACIR in collaboration with the Municipal Finance Officers Association sent out a questionnaire to a representative sample of 597 municipal finance officers.

The results indicate that user taxes stand out as the most popular non-property tax action -- 70% of respondents indicated that this policy was followed by their communities during the 1980-81 period. Only 8% had any action on local sales taxes; 5% on local income taxes.

User taxes apparently have more public support than other taxes. A 1981 ACIR public opinion poll documents the fact that taxpayers prefer user charge financing by overwhelming margins compared to other local tax increases, if local taxes have to be increased. When asked specifically: Suppose your local government must raise more revenue, which of these do you think would be the best way to do it, 55% of the respondents in September 1981 selected user charges. This was more than 2-1/2 times the number selecting local sales taxes, the second choice. Indeed, user charge financing was the first choice of each of the individual socio-economic-demographic groups -- and by quite a substantial margin in each case.

In addition, there is growing interest in what is termed local revenue diversification -- use of local sales and income taxes. Particularly in light of reduced federal and state aid and the regressivity of user fees, these additional sources of income are looking more and more attractive to local policymakers. In 1982 a number of state legislatures looked at and some acted to allow localities more taxing authority.

To assist policymakers interested in this areas, ACIR has developed model state legislation to provide localities with authority to levy income taxes and sales taxes and to provide state assistance in the formulation and administration of user taxes.

8. Are there other activities that states and localities can undertake that will help make them more efficient?

There are a variety of financial management tools available to states and localities that fall under this broad category. They include:

-- state reimbursement of localities for state-imposed mandates;

-- setting of state standards, review and assistance regarding local retirement systems;

-- establishment of a consolidated state-administered pension system;

-- state compensation to local governments for state-owned property;

-- state supervision of, and assistance to, local debt issuances; and

-- repeal of constitution restrictions on local borrowing powers.

In addition, a number of states have become increasingly interested in providing local governments with expanded "home rule" powers, enabling them to take on additional responsibilities in a variety of areas.

ACIR has drafted model bills and works with state and localities in each of these areas. A list of ACIR's relevant model legislation is attached.

TABLE 1 --STATE GOVERNMENT PERCENTAGE OF STATE AND LOCAL TAX REVENUE, BY STATE, SELECTED YEARS 1959-80

State	1980	1975	1971	1967	1963	1959	Percentage Point Increase or decrease (-)[1/] 1975 to 1980	Percentage Point Increase or decrease (-)[1/] 1959 to 1975
United States	61.3	56.7	54.2	52.1	49.9	48.9	4.6	7.8
Alabama	73.4	74.1	74.0	71.0	69.2	69.4	-0.7	4.7
Alaska	85.8	68.4	69.9	68.5	69.8	71.0	17.4	-2.6
Arizona	61.5	64.1	61.1	57.3	55.7	56.3	-2.6	7.8
Arkansas	77.6	76.1	72.6	72.5	68.8	70.2	1.5	5.9
California	69.8	52.0	46.5	43.8	45.7	46.8	17.8	5.2
Colorado	52.1	54.2	50.2	49.0	46.6	49.0	-2.1	5.2
Connecticut	55.3	49.1	48.4	48.1	47.0	44.9	6.2	4.2
Delaware	81.9	79.9	79.7	78.8	79.8	80.1	2.0	-0.2
Dist. of Col.	...	...	...	...	...	...	...	...
Florida	65.1	64.1	60.1	53.2	52.8	56.3	1.0	7.8
Georgia	64.9	61.9	63.9	65.8	64.8	65.9	3.0	-4.0
Hawaii	81.0	78.1	76.4	73.2	74.8	81.7[2/]	2.9	-3.6
Idaho	68.9	68.8	64.0	62.5	53.1	50.3	0.1	18.5
Illinois	57.2	54.2	54.6	44.6	42.2	41.3	3.0	12.9
Indiana	66.0	60.2	49.7	50.0	44.0	48.6	5.8	11.6
Iowa	62.0	58.0	49.8	50.1	43.1	47.4	4.0	10.6
Kansas	58.0	56.7	49.2	49.6	43.2	44.0	1.3	12.7
Kentucky	79.2	76.1	73.2	68.5	68.4	61.8	3.1	14.3
Louisiana	67.8	71.2	70.7	72.3	73.8	74.4	-3.4	-3.2
Maine	64.1	61.0	55.5	51.4	48.5	50.0	3.1	11.0
Maryland	59.3	58.0	56.8	53.6	56.0	55.7	1.3	2.3
Massachusetts	55.1	46.8	47.4	47.7	40.6	41.6	8.3	5.2
Michigan	59.7	55.8	57.5	55.2	54.4	51.5	3.9	4.3
Minnesota	69.8	68.3	56.8	51.6	47.2	45.7	1.5	22.6
Mississippi	77.2	76.2	73.7	66.6	65.6	68.5	1.0	7.7
Missouri	56.1	52.3	49.9	51.3	48.7	47.4	3.8	4.9
Montana	55.4	50.8	45.3	44.1	43.7	42.1	4.6	8.7
Nebraska	54.0	47.6	45.1	34.9	34.0	37.2	6.4	10.4
Nevada	61.4	58.5	58.7	51.5	59.1	56.5	2.9	2.0
New Hampshire	39.3	40.1	41.4	37.5	36.5	38.1	-0.8	2.0
New Jersey	50.9	39.6	41.2	37.7	29.5	28.4	11.3	11.2
New Mexico	81.0	82.7	78.9	74.5	72.9	74.2	-1.7	8.5
New York	48.5	48.1	49.3	48.3	43.3	38.0	-0.4	10.1
North Carolina	73.2	71.8	74.9	74.6	74.1	72.0	1.4	-0.2
North Dakota	67.3	67.7	54.2	50.8	49.2	50.3	-0.4	17.4
Ohio	54.5	52.9	45.1	44.4	44.7	46.2	1.6	6.7
Oklahoma	71.0	67.6	64.1	62.2	67.1	66.8	3.4	0.8
Oregon	56.5	54.6	49.4	51.4	50.2	48.9	1.9	5.7
Pennsylvania	62.4	62.9	58.6	54.3	53.2	50.3	-0.5	12.6
Rhode Island	58.6	58.5	60.8	53.7	51.4	50.7	0.1	7.8
South Carolina	76.0	76.2	76.6	77.2	75.0	73.8	-0.2	2.4
South Dakota	49.7	46.2	41.7	43.1	40.9	40.2	3.5	6.0
Tennessee	62.6	61.0	61.0	62.4	62.3	64.2	1.6	-3.2
Texas	58.9	57.7	55.9	53.6	53.9	50.2	1.2	7.5
Utah	64.1	65.4	63.1	59.5	56.7	54.6	-1.3	10.8
Vermont	57.9	56.8	62.2	61.3	55.0	49.6	1.1	7.2
Virginia	60.0	59.5	59.2	58.5	58.8	54.9	0.5	4.6
Washington	71.4	64.9	67.0	70.6	68.4	69.1	6.5	-4.2
West Virginia	78.6	77.3	74.5	70.0	69.9	67.6	1.3	9.7
Wisconsin	67.4	64.6	59.4	62.0	51.3	48.5	2.8	16.1
Wyoming	58.9	59.2	56.7	47.9	52.3	52.7	-0.3	6.5

[1/] The state percentage increased in 38 states by an average of 3.8 percentage points between 1975 and 1980 and in 42 states by an average of 8.4 percentage points between 1959 and 1975.

[2/] Fiscal year 1960. Not included in United States total since Hawaii did not become a state until August 1959.

Source: U.S. Bureau of the Census. Governmental Finances [illegible]

Table 2

A TWO-DIMENSIONAL MEASURE OF RELATIVE STATE-LOCAL FISCAL PRESSURE USING THE TAX WEALTH METHOD TO ESTIMATE FISCAL CAPACITY: FISCAL 1964-1978

Region and State	State-Local Own Source Taxes as a Percentage of "Adjusted" Personal Income: Fiscal 1978	Index	Rank	Annual Average Rate of Change in "Adjusted" Tax Effort: Fiscal 1964-78 (% Per Year)	Index	Rank	A Two-Dimensional Fiscal Pressure Index
United States							
Median	10.81	100		0.971	100		
New England							
Maine	12.54	116	13	1.007	104	25	116/104
New Hampshire	8.94	83	48	0.199	20	41	83/20
Vermont	12.31	114	16	-0.143	-15	46	114/-15
Massachusetts	15.97	148	3	2.538	261	6	148/261
Rhode Island	13.15	122	10	1.687	174	12	122/174
Connecticut	11.32	105	21	0.871	90	28	105/90
Mideast							
New York	18.51	171	1	3.893	401	3	171/401
New Jersey	12.50	116	14	2.376	245	9	116/245
Pennsylvania	11.84	110	17	1.414	146	16	110/146
Delaware	10.31	95	34	1.852	191	10	95/191
Maryland	13.37	124	9	2.463	254	8	124/254
Dist. of Columbia	14.29	132	5	5.751	592	2	132/592
Great Lakes							
Michigan	12.41	115	15	1.367	141	17	115/141
Ohio	9.20	85	46	0.493	51	36	85/51
Indiana	9.62	89	42	-0.399	-41	49	89/-41
Illinois	11.07	102	24	1.563	161	14	102/161
Wisconsin	13.65	126	6	0.293	30	39	126/30
Plains							
Minnesota	13.64	126	7	1.047	108	24	126/108
Iowa	10.23	95	36	-0.171	-18	47	95/-18
Missouri	9.40	87	44	0.529	55	34	87/55
North Dakota	9.66	89	41	-1.564	-161	51	89/-161
South Dakota	10.52	97	32	-0.337	-35	48	97/-35
Nebraska	11.12	103	23	2.589	267	5	103/267
Kansas	10.54	97	31	0.197	20	42	97/20
Southeast							
Virginia	11.37	105	20	3.120	321	4	105/321
West Virginia	9.82	91	40	0.270	28	40	91/28
Kentucky	10.30	95	35	1.293	133	18	95/133
Tennessee	9.98	92	38	0.529	54	35	92/54
North Carolina	10.43	96	33	0.725	75	29	96/75
South Carolina	10.82	100	26	1.281	132	19	100/132
Georgia	10.64	98	29	1.151	119	22	98/119
Florida	9.05	84	47	0.593	61	32	84/61
Alabama	9.92	92	39	0.713	73	31	92/73
Mississippi	11.51	106	19	1.248	129	20	106/129
Louisiana	9.24	85	45	-0.412	-42	50	85/-42
Arkansas	9.41	87	43	1.236	127	21	87/127
Southwest							
Oklahoma	8.71	81	50	0.410	42	37	81/42
Texas	8.44	78	51	-0.050	-5	45	78/-5
New Mexico	10.58	98	30	0.971	100	26	98/100
Arizona	13.07	121	11	1.796	185	11	121/185
Rocky Mountain							
Montana	10.79	100	27	0.326	34	38	100/34
Idaho	10.70	99	28	0.721	74	30	99/74
Wyoming	10.08	93	37	1.586	163	13	93/163
Colorado	10.99	102	25	0.171	18	44	102/18
Utah	11.14	103	22	0.552	57	33	103/57
Far West							
Washington	12.67	117	12	1.454	150	15	117/150
Oregon	11.59	107	18	1.125	116	23	107/116
Nevada	8.82	82	49	0.173	18	43	82/18
California	14.98	138	4	2.492	257	7	138/257
Alaska	17.90	165	2	5.834	601	1	165/601
Hawaii	13.42	124	8	0.970	100	27	124/100

Source: ACIR staff estimates based on U.S. Department of Commerce, Bureau of the Census, Governmental Finances, various years, and 1977 Census of Governments; U.S. Department of Commerce, Bureau of Economic Analysis, United States Department of Commerce News, May 11, 1980.

Table 3

INDICES OF PER CAPITA TAX CAPACITY AND INCOME, 1980
(States are grouped by Region)

STATE	TAX r/ CAPACITY INDEX 1979	TAX p/ CAPACITY INDEX 1980	PERCENT CHANGE	INCOME INDEX 1980	CAPACITY vs. INCOME: PERCENTAGE DIFFERENCE
NEW ENGLAND					
Connecticut	108.5	111.5	2.8%	123.1	-9.4%
Maine	80.1	80.0	0.1%	83.2	-3.8%
Massachusetts	93.4	96.2	2.9%	106.3	-9.5%
New Hampshire	96.3	96.5	0.2%	95.9	0.6%
Rhode Island	83.9	83.8	-0.2%	99.2	-15.6%
Vermont	85.4	84.5	-1.1%	82.2	2.8%
MID ATLANTIC					
Delaware	109.5	111.4	1.8%	108.6	2.6%
Washington D.C	109.9	110.8	0.8%	126.4	-12.4%
Maryland	98.9	99.2	0.3%	109.9	-9.8%
New Jersey	102.2	105.1	2.8%	114.7	-8.4%
New York	89.1	90.1	1.2%	107.8	-16.4%
Pennsylvania	93.1	92.6	0.5%	99.1	-6.6%
GREAT LAKES					
Illinois	111.8	107.6	3.8%	110.5	-2.6%
Indiana	97.9	92.2	5.9%	93.9	-1.8%
Michigan	104.1	97.0	6.8%	104.5	-7.2%
Ohio	100.7	96.8	3.9%	99.4	-2.6%
Wisconsin	99.5	94.7	4.8%	98.2	-3.6%
PLAINS					
Iowa	108.2	105.2	2.8%	98.3	7.0%
Kansas	109.4	108.8	0.5%	104.9	3.7%
Minnesota	105.3	102.2	2.9%	102.1	0.1%
Missouri	97.2	93.6	-3.7%	94.3	-0.7%
Nebraska	99.6	96.8	2.8%	98.4	-1.6%
North Dakota	108.6	108.3	0.2%	91.9	17.9%
South Dakota	94.8	90.2	4.9%	82.0	10.0%
SOUTHEAST					
Alabama	76.1	75.7	-0.5%	78.6	-3.7%
Arkansas	77.4	79.0	2.1%	76.3	3.6%
Florida	99.9	100.0	0.1%	94.5	5.9%
Georgia	81.3	82.0	0.8%	84.8	-3.3%
Kentucky	84.9	83.0	2.3%	80.0	3.7%
Louisiana	103.5	109.2	5.6%	88.8	23.0%
Mississippi	70.0	69.3	1.0%	69.1	0.3%
North Carolina	81.7	79.5	-2.7%	82.1	-3.2%
South Carolina	75.8	75.2	-0.7%	76.3	-1.4%
Tennessee	80.9	79.0	-2.4%	81.1	-2.6%
Virginia	92.7	94.8	2.2%	98.6	-3.9%
West Virginia	92.3	93.7	1.4%	81.9	14.4%
SOUTHWEST					
Arizona	90.9	88.8	-2.3%	92.3	-3.8%
New Mexico	103.2	107.3	4.0%	82.4	30.2%
Oklahoma	108.1	116.8	8.0%	95.7	22.0%
Texas	116.7	123.6	5.9%	100.3	23.2%
ROCKIES					
Colorado	110.1	112.7	2.3%	105.3	7.0%
Idaho	91.3	87.6	4.1%	84.6	3.5%
Montana	113.3	112.5	-0.8%	89.7	25.4%
Utah	86.8	86.1	-0.8%	80.3	7.2%
Wyoming	173.2	196.6	13.6%	114.5	71.7%
FAR WEST					
Alaska	217.4	259.7	19.4%	134.3	93.3%
California	115.9	117.0	0.9%	114.9	1.8%
Hawaii	102.8	106.5	3.6%	106.1	0.4%
Nevada	153.5	154.5	0.6%	112.7	37.1%
Oregon	106.4	103.1	-3.1%	97.9	5.3%
Washington	103.4	102.9	-0.5%	108.3	-5.0%
U.S. TOTALS	100.0	100.0	0.0%	100.0	0.0%

Notes: r/ revised
p/ preliminary

Source: ACIR

Table 4

THE SHIFTING SIGNIFICANCE OF SOURCES OF MUNICIPAL FINANCE 1957 to 1977 VS. 1977 to 1980

	1957 to 1977 1/	1977 to 1980
Federal Aid	Rising Rapidly (from 1.0% to 24.2%)	Falling Slowly (from 24.2% to 22.8%)
State Aid	Rising Rapidly (from 19.8% to 38.5%)	Falling Moderately (from 38.5% to 33.4%)
Property Tax	Falling Steadily (from 57.1% to 42.7%)	Falling Sharply (from 42.7% to 35.3%)
Nonproperty Tax	Rising Steadily (from 21.4% to 28.5%)	Rising Moderately (from 28.5% to 30.1%)
User Charges	Rising Steadily (from 12.7% to 18.6%)	Rising Rapidly (from 18.6% to 20.7%)
Special Assessments	Falling Steadily (from 2.9% to 1.4%)	"Holding Steady" (from 1.4% to 1.5%)
Other Miscellaneous Revenues	Rising Slowly (from 6.0% to 8.8%)	Rising Sharply (from 8.8% to 12.4%)

1/ Figures exceed 100 percent because all components are expressed as a proportion of own source municipal revenues.

SELECTED ACIR MODEL LEGISLATION
DEALING WITH KEY STATE-LOCAL RELATIONS ISSUES

2.101	Local Government Creation, Dissolution and Boundary Adjustments
2.102	Local Government Consolidation
2.201	Discretionary Powers of Local Governments
2.202	Optional Forms of Municipal Government
2.203	County Modernization
2.303	Areawide Study Commission
3.101	Repeal of Constitutional Restrictions on Local Taxing Powers
3.203	Authorization for a Local Income Tax
3.204	Authorization for a Local Sales Tax
3.205	State Assistance in Local User Charge Formulation and Administration
3.207	State Revenue Sharing
4.103	Legislative Notes on the Impact of State Legislation on Finances and Functional Responsibilities
4.104	State Constitutional Restrictions on Local Borrowing Powers
4.105	State Supervision of, and Assistance to, Local Debt Issuances
4.107	Intergovernmental Cooperation in Tax Administration
4.111	Pooled Insurance
4.115	State Compensation to Local Governments for State-Owned Property
4.201	Establishment of a Consolidated State-Administered Pension System
4.202	State Standards, Review and Assistance Regarding Local Retirement Systems

ADVISORY COMMITTEE ON FEDERAL PAY

STATEMENT OF LUCRETIA DEWEY TANNER FOR JEROME M. ROSOW, CHAIRMAN

ACCOMPANIED BY LILY MARY DAVID, CONSULTANT TO THE COMMITTEE

PREPARED STATEMENT

Mr. VAN KIRK. The next and last witness will be the Advisory Committee on Federal Pay, Mrs. Tanner for Jerome M. Rosow, Chairman.

Mrs. Tanner, we are glad to have you with us. You may proceed.

Mrs. TANNER. Thank you very much.

What we do not make up in quantity, we will make up in quality.

Mr. VAN KIRK. Great. Go ahead.

Mrs. TANNER. Mr. Rosow was unable to be here today. He lives and works in New York City and could not alter his scheduled appointments for this afternoon's hearing.

But let me introduce myself. I am Lucretia Dewey Tanner. I am an economist and Executive Director of the Committee, Advisory Committee on Federal Pay. With me is Lily Mary David, who is a consultant to the Committee, and brings an institutional memory of the Committee's working with her. She has been with the Committee since 1971–72.

I would like to submit Mr. Rosow's testimony for the record, and present a summary of his statement for you this afternoon.

Mr. VAN KIRK. That will be accepted in total.

Mrs. TANNER. Pardon me? I am sorry. I did not hear you.

Mr. VAN KIRK. It will be accepted for the record.

[The statement follows:]

STATEMENT OF JEROME M. ROSOW

Good morning. I am Jerome Rosow, Chairman of the Advisory Committee on Federal Pay. As an appendix, I am attaching a brief summary of the authority for the Committee. The Committee was established by the Federal Pay Comparability Act of 1970 and is responsible for making recommendations to the President with respect to the annual pay increase for Federal white-collar employees, mediating between the President's Pay Agent and representatives of Federal employees regarding this pay increase, and reviewing policy recommendations for Federal employee compensation.

I would like to focus my testimony today on the Committee's views of the 1981 pay increase for Federal white-collar employees and discuss some of the compensation issues facing the Federal Government. I will then conclude by submitting our budget request.

Role of the Committee

The Federal Government is the largest employer in the country and this Committee advises the President on pay increases affecting approximately 1.4 million Federal white-collar workers whose compensation totals about $40 billion annually. Historically, the military pay increases have been linked to those going into effect for this civilian work force, so that changes in procedures that the Committee has recommended have affected the military payroll as well. Military payroll is now about $38 billion a year, excluding military retirement benefits.

The Committee is the only independent voice that exists to make policy proposals with respect to the enormous Federal payroll. Everyone else involved with pay issues is subject to pressures to save money and cut the pay adjustments in the immediate future or, from the union/employee standpoint, to get the workers they represent as much as possible right now. Besides making its recommendations with respect to each annual pay increase, the Committee has tried to keep its eye on the longer term problems of Federal compensation and labor relations. We have tried, with some success, I believe, to take account of longer term problems in our recommendations each year. The Federal payroll is a factor which can be linked to improving Federal program management and efficiency.

In addition to making policy recommendations, we have consistently supported the principle of comparability, and there are times when we feel that the Committee is the only voice, or certainly one of the rare voices, crying in the wilderness. The mounting, one-sided, attacks on Federal compensation reflect serious lack of public awareness of the importance of highly qualified, motivated personnel to effective management.

As part of its effort to give an independent assessment of pay policy, the Committee issued a report, "A Decade of Federal White-Collar Pay Comparability, 1970-1980." This review, dated January 15, 1981 and released in June 1981, updates the first such report that looked at eight years of experience. Conclusions reached in that assessment remain valid--we are still concerned about the jeopardy facing the comparability system. I have copies of the report for members of the Committee.

In that report, we trace the development of the comparability principle and offer a series of recommendations to improve it. Specifically, we suggest that the comparability system should be retained and strengthened, with both fundamental changes and technical improvements. Fundamental changes suggested include:

-- New legislation to test and develop a comparability system for employee benefits, separate and distinct from the pay system.

-- Compensation levels high enough to attract and retain top quality management skills.

-- Pay curbs not substituted for needed improvement in productivity, program reduction, correction of position overclassification or correction of over-liberal benefits.

Among the technical modifications to improve the system, we recommend:

-- Reducing the six month lag between the BLS survey of private sector pay, by which comparability is measured, and the effective date of the increase.

-- Adding State and local government salaries and more occupations to the BLS survey.

-- Dividing the General Schedule into smaller, more homogeneous occupational groupings.

-- Setting national pay scales for professional and administrative employees and developing a system of locality pay for clerical and related occupations.

1981 Pay Increase

The October 1, 1981 pay increase marked the fourth consecutive year in which alternative plans reduced the annual civilian white-collar pay increase below comparability. The President's alternative plan limited white-collar pay increases to 4.8 percent. Comparability, as defined under present legislation and recommended both by the President's Pay Agent and the Advisory Committee, would have averaged 15.1 percent and varied among pay grades from 12.08 to 23.3 percent.

Not only have the pay increases in recent years been smaller on average than comparability, but they have consisted of uniform percentage increases for all grades, while comparability data would have called for substantial variations in these percentages among grades. As a result, pay in the upper grades of the General Schedule has lagged far behind the private sector.

Military pay increases of 11.7 percent in 1980 and 14.3 percent in 1981 were substantially greater than those put into effect for white-collar employees. The military pay increase was almost as large as the full comparability formula would warrant in 1980 and was substantially greater than that formula would have justified in 1981. This suggests that pay policy favors the military and ignores the the civilians.

The Committee, in its 1981 annual report to the President, made a number of urgent compensation policy recommendations, among them:

1. Amend the Federal Pay Comparability Act of 1970 to achieve a statute that meets the real needs of the Federal Government and will not only control aggregate short- and long-term costs but will result in effective personnel management and improved productivity.
2. Extend the comparability principle to benefits but with separate benefit and pay comparability since pay and benefits serve different functions as employee motivators.
3. Give highest priority to reform of Federal employee pension legislation, with attention to such issues as retirement age and years of service for vesting and retirement; the formula to be used in indexing pensions; disability retirement provisions; allocation of full pension costs to individual agencies, notably the Postal Service; ties to the social security system; and appropriate levels of employee contributions.
4. In order to end the then-existing stalemate between executive, legislative, and judicial pay, enact legislation to create a separate pay system for each branch of government. The recommendation also proposed creation of a body of persons of national repute to make annual reviews of each pay system and propose annual compensation changes for each branch of government.
5. Avoid changes to the retirement system that would make it more restrictive while at the same time holding pay increases to below comparability levels. Pension changes should be made in order to permit a return to pay comparability, but there is real danger that pension changes will result in Federal employees being penalized by both pay levels below comparability pay and pension benefits that are reduced in value to achieve so-called comparability with the private sector.

6. Give attention to the views of employees and their representatives in planning for new pay and benefit legislation and for its implementation.

Current Issues

It may be useful to summarize the Committee's views with respect to current Federal employee compensation issues:

Benefits. As the Committee has advised the current as well as the previous Administration, and as indicated in the preceding summary of our proposals, the Committee agrees that comparability should be extended to benefits. It does have serious questions about the methods to be used in extending the comparability principle to the complicated benefit area and, specifically, to the concept of total compensation comparability. While the Administration has withdrawn its legislative proposal for such comparability, the proposal may not be buried permanently. The 1983 budget proposal indicates that a study will be made of the Federal pay system, with a view toward making recommendation in next year's budget.

We reiterate that any new system (a) should be fully tested before a final determination is made to use it, (b) should be easily understood by Federal workers and the public, and (c) should avoid the error of assuming that all elements of compensation are interchangeable.

The mounting costs of Federal pensions--both civilian and military--have been a factor in the assault on Federal pay comparability. In addition, the lack of balance between pay and pensions has been a major factor in widespread decisions of top level Federal personnel to leave Federal Service as quickly as possible.

As I indicated in the summary of our recommendations, the Committee has endorsed pension reform but there is danger that pensions will be reduced without an accompanying effort to restore pay to comparability. I also seriously question proposals that would scrap the present pension system and essentially start all over. Not only would such drastic changes add to employee morale problems but the long period that would presumably be required to enact new legislation might delay changes--for example, in the escalator formula and the normal age of retirement--that might save money.

Executive Pay. Last year before this Committee and in our annual reports we expressed deep concern over the executive pay ceiling. This problem was partly dealt with when Congress raised the pay ceiling effective January 1 of this year. The executive pay ceiling has, along with a generous pension system, resulted in extraordinarily high rates of retirement. Presumably these rates of retirement will be somewhat reduced, at least temporarily, with the lifting of the pay cap. There is real danger, however, that relief created by the action late last year will be only too temporary unless Congress in the future adheres to the provisions of the 1975 legislation that provides for increasing this ceiling at the same rate as General Schedule pay raises or creates a body of distinguished citizens to make annual recommendations with respect to executive, legislative, and judicial pay.

Severe management problems have been cited from continued caps placed on executive salaries, including morale at the upper reaches of government, salary compression, and a drain from government of the most able executives, professionals and scientists.

This problem cannot be solved with an ad hoc, one-time adjustment. A commitment to comparability must be consistently acted upon.

Labor Relations. Employee representatives need a forum in which to voice their views and take a role in the decision-making process. We hope that the return of the members of the Federal Employees Pay Council will contribute to reducing employee frustration and that the Council will function as such a forum.

Working Conditions and Job Security. Problems confronting Federal workers today have rarely been experienced in the past; primarily they are problems of widespread reductions-in-force, actual or threatened, and forced leaves without pay or furloughs. To a considerable extent, these furloughs and leaves without pay negate the pay increase that went into effect in October. The job security assumption that had been used by the Administration as part of its justification for below comparability pay scales no longer exists. In fact, insecurity and fear are prevalent.

Budget and Personnel

The appropriation request for our Committee for Fiscal 1983 is $204,000--$12,000 more than our appropriation for Fiscal 1982. While appropriations for FY 1982 were $192,000, this was reduced by 4 percent, to $184,320 (PL 97-92) which the agency must now absorb. Based on the increase in rent, GSA support Services, and other expenses, the $204,000 requested just about maintains operations at the desired $192,000 level. It will cover salaries and benefits of three full-time employees--an economist, a staff assistant, and a secretary; reimbursement of a part-time economic consultant; rent and operating expenses of our headquarters office; and salaries and travel expenses of the Committee members when they are engaged in Committee work.

Our mediation role between the Pay Agent and representatives of Federal employees has fallen into disuse since the members of the Federal Employees Pay

Council resigned to protest the 1978 decision to issue an alternative plan. Since the walkout, however, representatives of the Federal employee organizations have met with the Committee to express their views regarding the annual pay increase recommendations and continue to consider us a bridge to the President and his Pay Agent.

Federal employee organizations reportedly have written the President's Pay Agent proposing a return to the Federal Employees Pay Council. When the Pay Council resumes functioning, the Committee will again engage in its mediation role between the Council and the Pay Agent. Our expenses for this activity are covered within the present appropriation request.

In the past, the Committee has never spent its entire appropriation. We have always held back on spending, keeping a reserve to deal with compensation issues that might arise. It was only after we saw the specific proposals for pay reform that we felt a strong need for an independent look at data on these proposals.

Last year we informed you that the Committee planned to hire an economist once the hiring freeze was lifted. We have just recently brought such a person on board. This economist and the part-time consultant will spend as much time as possible analyzing some of the issues raised by pay reform, such as Federal civilian retirement policy issues and the desirability of splitting the General Schedule into two pay plans instead of continuing with a single General Schedule, and an analysis of alternative methods of determining locality pay rates. Given the current emphasis, we will probably concentrate our efforts initially on the problem of retirement policy and its impact on Federal pay in view of the very serious consequences of the present policies and the proposals that would hold down current pay instead of facing up to the problems of the retirement system.

This concludes my remarks and I will be happy to answer any questions. Thank you.

APPENDIX

Authority for the Committee

The Federal Pay Comparability Act of 1970 established the Advisory Committee on Federal Pay. The Committee was given responsibility to:

"(1) review the annual report of the President's agent;

"(2) consider such further views and recommendations with respect to the analysis and pay proposals contained in the annual report of the President's agent as may be presented to it in writing by employee organizations, the President's agent, or other officials of the Government of the United States, and such experts as it may consult; and

"(3) report its findings and recommendations to the President."

Recommendations of the President's Panel on Federal Compensation in December 1975 and an Executive Order signed on July 20, 1977, expanded the Committee's original responsibilities. These changes charged the Committee to act as a third party to improve the pay decision process between the President's Pay Agent and organizations representing Federal employees and with making longer term policy recommendations regarding Federal pay policy, to consider the impact of Federal pay on the national economy, and to advise on changes that should be proposed in Federal compensation policies and practices.

ROLE OF THE COMMITTEE

Mrs. TANNER. Thank you.

First, let me try to explain the role of the Committee.

The Committee itself was established by the Federal Pay Comparability Act of 1970, and is responsible for essentially three functions: making presentations to the President with respect to the annual pay increase for Federal white collar workers; second, for mediating between the President's pay agent and representatives of the Federal Employees Pay Council regarding the pay increases that are recommended each year; third, it is also responsible for reviewing policy recommendations for Federal employee compensation.

It should be remembered that the Federal Government is the largest employer in the country, and this Committee advises the President on pay increases affecting the approximately 1.4 million Federal white collar workers, whose compensation is approximately $40 billion annually.

Historically, the military pay increases have also been linked to the white-collar pay increases; so that changes historically made in white-collar pay are also reflected in the military payroll, which is approximately $38 billion a year, excluding retirement benefits.

This Committee is the only independent voice that exists to make policy proposals with respect to the enormous Federal payroll. Other groups who are involved in pay issues are subject to pressures either to save money, or to provide more for their union members.

NEED FOR COMPARABILITY

The Committee has first and foremost recommended a policy of comparability be adhered to as originally suggested in the 1970 act. The 1981 pay increase marked the fourth consecutive year in which alternative pay rates were put into effect. The pay increase was limited to 4.8 percent. Comparability, however, dictated an increase of 15.1 percent, and varied greatly among the pay grades from 12 to 23 percent.

We have made a number of recommendations over the years. One publication that outlines these recommendations and the history of the Committee, is this publication, A Decade of Federal White Collar Pay Comparability, 1970–80, and I do have copies for members of the committee and staff.

Mr. VAN KIRK. We will be glad to take them. How long are they? How many pages long are they?

Mrs. TANNER. This report has 34 pages.

Mr. VAN KIRK. Thank you.

We will be glad to take them.

TOTAL COMPARABILITY

Mrs. TANNER. I will not spend the time to talk about all of the various recommendations that we have made over the years that are included in this report, and in the 1981 report to the President, but I think just touching on a couple of the issues might be appropriate.

One is the issue of total comparability that has been suggested.

Mr. VAN KIRK. That is on page 5. I was going to ask you about that. Is that what you are talking about?

Mrs. TANNER. Yes; total comparability, measuring both pay and benefit increases, and we believe—the Committee has gone on record saying—that, yes, benefits, levels of benefits should be taken into account in measuring compensation for Federal workers.

However, we believe that there should be a separation between pay and the benefit levels.

We have also gone on record recommending changes in the retirement system. But if there were any major change in the current system, we feel that there should be a great deal of caution and study before these widespread changes are made. However, we have suggested that questions of the escalation of retirement benefits and age and vesting provisions might be looked at.

One of the serious problems is the executive pay ceilings that have led to early retirement, and the inability of the Government to recruit and retain top quality executives. While the cap was lifted in January 1982 the Government needs to make a long-term commitment to executive salary comparability.

Developments are occurring to compel the reduction in take-home pay. People are being furloughed by their agencies to avoid reduction in force actions—RIF's—and, at the same time, health insurance premiums have increased. For those employees affected, these events have offset or more than offset the October 1981 increase of 4.8 percent. Those who are RIFed and separated from their agency receive varying amounts of severance pay and become eligible for unemployment compensation but, of course, when these run out, they are without any income at all.

Mr. VAN KIRK. Did you find many instances where an individual got a pay raise, and then because of his agency's budget being cut, he was furloughed, so he went back to making what he was prior to the pay raise?

Mrs. TANNER. We have not made a study of it, but from the information that we have read, and from the actions that are being taken by some of the agencies, yes, we do feel that pay cuts have occurred among those furloughed. Those who are RIFed and reassigned within the agency at a lower grade, however, are able to retain their previous pay for 2 years.

If in fact employees are being asked to volunteer 1 day, a pay period or a total of 14 or 22 days, for work without pay, that is a sizable cut in pay.

BUDGET REQUEST

Let me turn briefly to our budget and personnel requirements for the committee, which are rather modest. We are asking for, in fiscal 1983, a total of $204,000, which is $12,000 more than our appropriation for fiscal 1982.

The fiscal 1982 appropriation was further reduced by 4 percent, which was across the board for all agencies. The amount requested,

$204,000, maintains operations at the previous year's desired level, and this money will be used to cover salaries of three full time employees; an economist, a staff assistant, and a secretary, plus part-time consultants, rent, operating expenses, and travel for the Committee members when they are engaged in Committee work.

The funds will also be used for our mediation activities, which have fallen into some disuse since the members of the Federal Employees Pay Council resigned in 1978, and the body has not been reinstated, however, we are under the impression—under the understanding that—this body may very well be reinstated, and we are awaiting that decision.

This, in essence, concludes my remarks, and I will be happy to answer any questions.

Mr. VAN KIRK. Mrs. Tanner, thank you very much.

I think you have covered it very well.

I am sure that Mr. Mills would join me, that we doubt that the committee will try to balance our budget out of your budget submission.

Thank you for coming.

Mrs. TANNER. Thank you very much.

SUBCOMMITTEE RECESS

Mr. VAN KIRK. We will stand in recess until May 12 at 10 o'clock, to hear from the Director of the Office of Management and Budget.

[Whereupon, at 3:30 p.m., Thursday, May 6, the subcommittee was recessed, to reconvene at 10 a.m., Wednesday, May 12.]

TREASURY, POSTAL SERVICE, AND GENERAL GOVERNMENT APPROPRIATIONS FOR FISCAL YEAR 1983

WEDNESDAY, MAY 12, 1982

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, D.C.

The subcommittee met at 10 a.m., in room 1318, Everett McKinley Dirksen Senate Office Building, Hon. James Abdnor (chairman) presiding.

Present: Senators Abdnor and DeConcini.

EXECUTIVE OFFICE OF THE PRESIDENT

OFFICE OF MANAGEMENT AND BUDGET

STATEMENT OF DAVID A. STOCKMAN, DIRECTOR

ACCOMPANIED BY:
DAVID GERSON, ASSISTANT DIRECTOR
MICHAEL HUDSON, ASSISTANT DIRECTOR FOR LEGISLATIVE AFFAIRS

PREPARED STATEMENT

Senator ABDNOR. The subcommittee will come to order.

We certainly welcome our Director of the Office of Management and Budget, David Stockman, to our meeting today. It is always a pleasure to have you with us. I don't always envy the job you have to do, but you always come through.

We are going to complete the hearings on the fiscal year 1983 budget for those agencies within the Treasury, Postal Service, and General Government appropriations bill.

We have waited and asked you to be our last Government witness in order to give us an overview of where we can cut and where we must add appropriations. I hope you have in front of you our chart entitled "Comparative statements of new budget authority" showing what was appropriated in 1981 and 1982, and what is required for 1983. If you will be so kind, we will go through the chart item by item.

First, make your statement. We do want to hear from you, Mr. Stockman. I am sorry.

Mr. STOCKMAN. I have a statement that I would like to submit for the record. I will summarize it very quickly, and then I would be happy to respond to your questions. I don't have the chart you were referring to, so, if that could be provided, it might be easier to respond.

[The statement follows:]

STATEMENT OF DAVID A. STOCKMAN

I appreciate the opportunity to appear before this Committee to discuss the fiscal year 1983 budget request for the Office of Management and Budget.

The Office of Management and Budget requests a fiscal year 1983 appropriation of $36,109,000. This request compares with the Office's estimated 1982 appropriation of $33,756,000 ($32,079,000 Continuing Resolution level and a pending pay supplemental of $1,677,000). It represents the essential resources needed for OMB to assist the President in his budgetary, regulatory, management, and other executive responsibilities.

1982 BUDGET REDUCTIONS

The 1983 OMB budget request must be analyzed in the context of a reduced 1982 budget. From the President's initial March request for $38 million in 1982, OMB has led Federal agencies in seeking increased output for reduced dollars. The Office now plans a 1982 budget of under $34 million that will meet only the agency's most critical needs.

Steps initiated to curtail expenditures include selective hiring freezes, travel reductions, printing reductions, and overtime restrictions. We have also reduced office space by 14,865 square feet or 9 percent; reduced orders for printing the Budget by 18,844 volumes or 39 percent; and reduced spending on supplies and equipment by $481,000 or 48 percent.

RISING WORKLOAD

These reductions are being implemented while workloads have increased dramatically. Congress has mandated major new functions for OMB, including those under the Paperwork Reduction Act of 1980 and the Office of Federal Procurement Policy Act of

1980. Also, under the Congressional Budget and Impoundment Control Act of 1974, OMB transmitted nearly 1,900 supplementals, budget amendments, rescissions and deferrals to the Congress in 1981. In previous years, the Office averaged less than 600 such Congressional transmittals.

In the past five years, while OMB permanent positions declined by 11 percent, most workload measures have steadily increased as shown by the following data.

SELECTED WORKLOAD MEASURES FOR OMB

	1977 (actual)	1981 (actual)	1982 (est.)	1977-82 (% change)
1. OMB Permanent Staff authorized...	682	610	604	-11
2. Budget Measures				
a. Accounts and programs in annual budget (growth reflects new programs added by Congress)......	1,047	1,170	1,198	+14
b. Supplementals, budget amendments, rescissions and deferrals submitted to Congress....	553	1,897	2,020	+265
c. Apportionments and reapportionments.........................	1,400	2,100	2,500	+79
3. Regulatory reviews..............	0	2,800	4,200	New
4. Paperwork clearances............	2,000	3,014	7,704	+285
5. Major rule review conducted under E.O. 12291................	0	30	70	New
6. Information Collection Budgets and Information Management plans reviewed..................	0	35	101	New
7. Inspector General semi-annual reports reviewed................	0	36	38	New
8. Whistle blower inquiries referred to IG's, Justice, etc...........	25	1,500	750	+2,900
9. Congressional and public letters received and answered...........	2,935	6,008	7,500	+156
10. Telephone inquiries from Congressional offices answered......	2,600	5,100	6,450	+148
11. Congressional hearings at which OMB witnesses testified..........	30	154	200	+567
12. Tax legislative items cleared....	150	520	780	+420

	1977 (actual)	1981 (actual)	1982 (est.)	1977-82 (% change)
13. Bills and Legislative reports reviewed and cleared............	4,242	5,096	5,500	+30
14. Executive Orders and proclamations reviewed and processed..........	587	947	1,050	+79
15. Department of Justice lawsuits and discovery motions handled....	26	50	75	+188
16. Bulletins and Circulars issued to implement new statutory provisions	15	27	30	+100
17. Financial Disclosure Reports reviewed.........................	0	86	102	New
requests and appeals pro-.........................	110	153	225	+105

1982 PAY SUPPLEMENTAL

provision by Congress this year for pay raises--for both general schedule and executive schedule employees--places an additional strain on our budget, which was voluntarily reduced by 16 percent from the original FY 82 request. This reduction makes approval of our $1,677,000 supplemental request essential if we are to provide the increased level of services described above.

1983 BUDGET REQUEST

Projecting this level of spending into 1983, our request of $36,109,000 is a $2,353,000 increase over 1982. This increase is due solely to Congressionally mandated rent and pay increases. It includes 611 full-time equivalent (FTE) positions, or 20 less than the 1982 level.

These levels reflect three basic operational assumptions:

1. Contraction in staff will be handled through internal realignments and consolidations.

2. No growth can be achieved within these fiscal resources. In fact, setting aside pay and rent (SLUC) increases, the OMB budget will actually fall in nominal terms. In addition to the

reductions already mentioned, this will require reductions in: training, computer software development, consultant support, periodical subscriptions, supplies, equipment, telephone service and the elimination of our paid summer intern program.

3. User charges and related fees will be imposed, to the maximum extent possible, on OMB services and publications in an effort to reduce costs. Fee schedules, similar to the ones already imposed for the annual Budget documents, are being set for other computerized and hard-copy information.

DETAILED REVIEW OF COSTS

Personnel Compensation, $21,278,000

This 1983 request will be sufficient to support a level of 611 full-time equivalent positions. The average number of full-time equivalent positions for 1982 is 631. Cost savings achieved by reducing 20 full-time equivalent positions are partially offset, however, by two factors: a higher retention rate for personnel in 1983 and an allowance for within-grade increases and promotions. As part of the Administration's 1983 savings program, expenses for consulting services will be reduced.

Summary of Personnel Costs
(in thousands of dollars)

	1981	1982	1983
Permanent personnel costs.........	$18,683	$20,398	$20,138
Nonpermanent personnel costs......	1,311	774	690
Overtime & other personnel costs..	727	450	450
Total personnel costs........	$20,721	$21,622*	$21,278

* Includes 1982 pay supplemental

Personnel Benefits, $1,792,000

This request is for OMB's mandatory contributions to the Civil Service Retirement System, the Social Security program, the Federal Group Life Insurance program, and the Federal Employees Health Benefits program.

Travel and Transportation of Persons, $370,000

This request is to provide travel funds for the examination and review of executive branch activities outside Washington, D.C. and other official business by OMB staff. Higher airline and per diem travel expenses anticipated in 1983 will be offset by a reduced number of trips. OMB seeks no increases in this area for 1983.

Transportation of Things, $2,000

This estimate covers the cost for shipments of supplies and materials as provided by law. OMB seeks no increase in this area for 1983.

Standard Level User Charges, $5,297,000

This estimate represents payments made to the General Services Administration (GSA) for rental of office space in the Old and New Executive Office Buildings. Unfortunately, reductions in other OMB expenses will be wiped out by increases in our rent. In fact, SLUC costs constitute 95 percent of the increases in the 1983 budget. GSA has imposed an increase in standard level user charges (SLUC) in the New EOB from $13.48 per square foot to $29.34 per square foot, a 118 percent increase over 1982. OMB has attempted to offset this higher cost through consolidating the current space occupied by the staff from 170,800 square feet to 156,015 square feet, a 9 percent reduction.

Communications, Utilities and Other Rent, $2,450,000

This estimate includes payment to the General Services Administration (GSA) for the cost of operating the Executive Office joint telephone switchboard, including salaries of telephone operators, use of telephone equipment and telephone service. Also included in this estimate are costs associated with rental of duplicating, word processing and other equipment and reimbursement to GSA for furnishing miscellaneous building services, including recurring and nonrecurring costs for maintenance and additional costs for heating and air conditioning. The increase in cost is due to uncontrollable increases in costs for telephone services and utilities. Nevertheless, due to OMB's savings initiatives, this area shows no real growth for 1983.

Printing and Reproduction, $1,347,000

This request covers the cost of work done by the Government Printing Office (principally the printing of the President's budget documents and related materials) and other printing and duplicating work that cannot be handled by the Office of Administration's duplicating facilities. While GPO has increased the unit cost for the President's budget documents and related materials, OMB has managed to hold costs far below what was projected in 1982 by reducing the distribution of free copies of the Budget books and by printing fewer hardbound copies. In 1983, however, a large portion of savings will be offset by increases in paper, printing and binding costs charged by GPO and higher Federal Register page printing charges. Nevertheless, OMB is requesting $122,000 less for this area in 1983.

Other Services, $3,151,000

This request includes charges for (1) the development of various computer information systems, (2) computer time-sharing, (3) personnel security investigations conducted by the Office of Personnel Management, (4) OMB's share of maintaining an employee health program, (5) repairs to equipment, (6) training, and (7) other miscellaneous services. This area shows no real growth for 1983.

Supplies and Materials, $217,000

This estimate is for the purchase of normal office supplies and periodicals. As a result of careful monitoring of the use of available resources, OMB will be able to absorb the increased costs of supplies and work materials and reduce spending in this area by $13,000 below the 1982 level.

Equipment, $205,000

This request covers the purchase of office equipment, including adding machines, calculators, typewriters, and books. Delay in replacement of older, used machinery and in the purchase of leased equipment will save $90,000 in 1983.

MAJOR OBJECTIVES

With these resources, the 1983 budget request will support OMB activities in several priority areas. As the demands for speed and accuracy in Federal budgeting increase for both the Executive and Legislative Branches, OMB has attempted to respond by creating a Central Budget Management System (CBMS). It will provide a capability for OMB to obtain budget information quickly, serve as a repository of information, and also permit OMB to respond more quickly to Congressional requests for current budget data.

OMB recently has improved its monitoring and analytical procedures with respect to off-budget issues such as the implementation of a central system for tracking Federal credit activities, as well as the area of "tax subsidies."

OMB also will continue other initiatives, including the President's focus on regulatory and information collection reform, governmental efficiency and debt collection.

Last year, the Office of Information and Regulatory Affairs (OIRA) was established in OMB. Its work includes measurement of compliance costs of Federal information collection requirements and regulatory decisions. Beginning in 1981 with a budget of $4.3 million, OIRA has undertaken important efforts, many mandated by the Paperwork Reduction Act of 1980 and Executive Order 12291. And with a budget allocation of $5.1 million, the Office will continue its efforts in regulatory, statistical and information collection areas in 1983.

In husbanding fiscal resources, OMB will continue the President's efforts to reduce waste, fraud and abuse. The OMB Deputy Director chairs the President's Council on Integrity and Efficiency. This allows OMB staff to closely monitor projects undertaken by the agency Inspectors General. Parallel efforts are underway to develop and implement model internal control systems for agency-level activities, and OMB is coordinating implementation of 24 major agencies' plans to improve debt collection practices.

Finally, this productivity enhancement with reduced staff simply could not occur without increased automation. The 1983 request reflects the continuation of a management decision to revamp and expand OMB's use of computer technologies.

Four efforts are underway and will be continued: (1) automation of agency budget submissions as specified in OMB Bulletin 79-10; (2) enhancement of OMB word-processing capabilities; (3) enhancements in the ADP tracking systems for the management divisions and the Office of Information and Regulatory Affairs; and (4) creation and maintenance of a comprehensive budget scorekeeping system (CBMS, mentioned above). These efforts, along with the talent and discipline of OMB staff, will ensure the agency's continued professionalism in 1983.

SUMMARY

Our 1983 budget request represents prudent and responsible fiscal management. We have reduced spending wherever possible while channeling our available resources into areas essential to helping the President manage Federal spending and operations.

BUDGET REQUEST

Mr. STOCKMAN. Mr. Chairman, as I think you are aware, our request for fiscal 1983 is $36,109,000, and that compares to a budget for fiscal year 1982 for the Office of Management and Budget of $33,756,000.

I would have to suggest, Mr. Chairman, this morning, that that $2.4 million increase is really the rock-bottom additional resources that we believe are necessary in order to carry out the whole range of responsibilities that OMB has to perform in behalf of the President, in the budgetary area, regulatory area, management and an array of other Executive responsibilities.

To put that number in perspective, I would like to remind you that when we came in, in January 1981, the pending request that had been prepared by the preceding administration for OMB was $38 million for fiscal year 1982. What we are requesting for fiscal year 1983 is $36 million, so a year later, the budget level, in nominal terms, is below the pending request when we came in, and in real terms after inflation is discounted, substantially below the level that was proposed.

I think what this suggests is that we have been trying to practice what we preach, and we have made rather extensive efforts over the last year at OMB to reduce overhead, to hold personnel to an absolute minimum, to reduce the costs of publications and a variety of other areas that comprise most of our costs.

I would point out at the same time our workload has been rising dramatically, and I have provided in page 3 of my testimony an indication or a kind of summary of what has happened to the OMB workload over the last 4 or 5 years. I won't take your time this morning to go through each of these, but I think that, if you look at this table, you can see that in category after category there has been a rather massive increase in the work and the output that we provide in the executive branch.

Just to take a few examples: In 1977 we had to transmit about 553 recissions. In 1982, we expect 2,000, a 265-percent increase.

In 1977, we had to undertake 1,400 apportionment actions. This year we expect 2,500.

In 1977, of course, we didn't have the Executive order on regulatory reviews, so there was zero activity in that area. This year we will review more than 4,200 agencies' proposed regulations, or final regulations that will be brought to OMB under the Executive order.

Take another example: In 1977, under the congressionally mandated Paperwork Reduction Act, we had 2,000 paperwork clearances. This year we expect it will be 7,700, again a rather dramatic and large increase.

You can go on down the table and you can see that in work category after work category these increases have been across the board.

So I guess my point this morning, Mr. Chairman, is that our budget resources are down compared to what we inherited. Our workload is up in rather a dramatic way, and I think what that means is that we have had a startling increase in productivity at OMB, and we intend to continue that; but we would make the plea, we would urge this morning, that the $36 million we have requested for 1983 is a very fair-sized budget and, given all the responsibilities, it will take that much money to get the job done.

Senator ABDNOR. Thank you, Mr. Stockman.

I want to commend you on your presentation. I hope your productivity proves more fruitful than that of farmers and others. It is a way to whip the battle on inflation and get things moving.

I do have several questions, though, relating to your own budget, and if I jump around to the various agencies, I hope you can give us your thoughts on these. With respect to the supplemental, what can you tell us about the Bureau of Governmental Financial Operations; a postal shortage that might prevent the mailing of Government checks out?

Mr. STOCKMAN. Mr. Chairman, I would say that is one of the two or three most important items in the pending supplemental. We would like to receive those funds to make sure the checks go out as scheduled in the last couple of days of May. That with the BLS and a couple of others, the Inspector Generals at HHS, are important. There is no crying wolf here. This money must be made available in a short period of time if we are to avoid disruptions in the critical functions of those agencies.

A bill is pending, I believe, Mr. Chairman, for House consideration today, and received a rule yesterday.

Senator ABDNOR. All right.

That is a very urgent matter.

We know there is a big increase for the Office of Secretary of the Treasury. Part of this increase is, of course, incorporating the International Affairs Council in the Office of the Secretary. Don't you think it would be better to keep International Affairs as a separate line item, rather than have it in the Office of the Secretary? It is difficult to see really how the operation would be improved.

Mr. STOCKMAN. I think that would be a judgment for you to make, Mr. Chairman. It is certainly the area of this committee to organize the appropriation accounts in a way that makes it best for you to discharge your responsibilities. This decision was made by the Secretary of the Treasury for good and substantial reasons. I won't quarrel with it, but I can understand that you might have another point of view.

Senator ABDNOR. Someone tells me we are taking a vote. We will have to recess briefly. I will be right back.

[A brief recess was taken.]

Senator ABDNOR. Mr. Stockman, I know time is short. How soon do you have to leave for the White House?

Mr. STOCKMAN. Mr. Chairman, I really need to be downtown before 11 o'clock for a meeting that is scheduled.

Senator ABDNOR. Well, we may have to submit some questions to you, and we may have to go so far as to ask you back. We will just take a few more moments.

Mr. STOCKMAN. Sure.

Senator ABDNOR. We are not at all sure that the Customs Service can protect the Nation at its borders on the $500 million that the OMB recommends. We have a tremendous drug problem in this country, and the Customs is the first line of defense against the importation of drugs into the United States. Also, Senator DeConcini and I feel strongly that operation Exodus, which prevents the smuggling and exportation of high-technology equipment to the Soviet-bloc countries must be fully funded. We really feel strongly about this. We agree, and we are very pleased with what you are trying to do. Have you had an opportunity to become informed on operation Exodus?

Mr. STOCKMAN. Yes, I have, Mr. Chairman. I appreciate your concern. I think we feel the same way as to the importance of the objectives. What we are attempting to do right now, though, is get a better assessment of the resources, budget resources, that are available in all the agencies that deal with both these matters, export of high technology and smuggling.

The problem is that we have a half-dozen Federal agencies involved; the FBI, the DEA, the Customs Service, as well as other agencies. We think overall there are enough resources there. What we have to do is do a better job of coordinating them and targeting them, but we certainly appreciate your concern.

Senator ABDNOR. I know exactly what you are saying. I love to work with somebody, you or anyone else, who tries to beat down some of the parochial concerns of agencies and do something about making a better program, even to putting them in one program so they would be better coordinated. But this is something that looks like it is an attempt—well, high technology, I guess it has been said over and over again to us, that Russia is just robbing us blind on that. We just want you to know that that has a favorable view from this committee.

The Office of Personnel Management will have insufficient funds to meet the required payments to health-insurance carriers after June 30. What can you tell us about that?

Mr. STOCKMAN. Mr. Chairman, I would have to supply an answer for the record on that. I am not familiar with the situation.

Senator ABDNOR. We think it is absolutely imperative, and I wish you would look at the situation.

For the Secret Service, we are going to have to come in around $210 million without including any funds for BATF or other reorganizational activities in the Treasury Department. I presume that the OMB will not object to our efforts to try to provide for security. You have no quarrels with this figure for that purpose?

Mr. STOCKMAN. Is the figure $210 million, I believe? The budget request, Mr. Chairman, for fiscal year 1983 includes the additional funds that would be needed for the reorganization of the Bureau of Alcohol, Tobacco and Firearms. Now, that is a spending decision by you and final implementation at the Treasury, so we have to separate out that money. I am not sure whether it is $201 or $210 million in terms of what our request level would be.

Senator ABDNOR. When we get through, regardless of what the figure is, BATF is going to be around, or something very comparable to it, from what I know of it. The thing is that the Secret Service itself, we are getting into reorganization. They felt that $210 million was an appropriate or needed figure.

That figure is in the proposed budget of $294 million. Two-hundred and one million dollars of it is for the Secret Service, and we are thinking about, after talking with the Secret Service, if we keep it separated, that they still need another $9 million.

Last year, if you will recall, we had a series of go-arounds on whether or not the Office of Information and Regulation and Information Policy should be considered as a separate line item. What are your thoughts on this now?

Mr. STOCKMAN. I think as we indicated last year, we do not believe that would be necessary or desirable. If we were to establish that precedent, it would be necessary to create more accounts in OMB. The accounts up to now have been consolidated; and, unless there is some overwhelming reason that we are not familiar with, we would like to keep it on a consolidated basis.

Senator ABDNOR. That particular amount, is that part of your budget, these items? We can't tell.

Mr. STOCKMAN. We can submit for the record, Mr. Chairman, a breakdown of the allocation of funds within OMB on a functional basis between OIRA and the other divisions.

[The information follows:]

Allocation of funds on a functional bases—fiscal year 1983[1]

Budget review	$4,430
National security, and international affairs	4,916
Economics and Government	3,868
Natural resources, energy, and science	4,746
Human resources, veterans, and labor	3,563
Director's Office	4,380
Management	3,227
Information and regulatory affairs	4,758

[1] Based upon appropriation level of $33 million. Anticipated payroll supplement of $888,000.

NAVIGATIONAL-USAGE CHARGES

Senator ABDNOR. I will ask you a couple of questions. The administration has made several proposals regarding navigational-usage charges, and the Committee on Environment and Public Works has reported S. 1692 to move toward your goal, and we have scheduled hearings on inland-navigation issues. Yet, the administration appears to have lost interest in this issue; for example, no one has put forth any effort on it, and you personally, I understand, had a proposal that $2 billion a year for user charges be directed to the financing committee rather than the authorizing committee. Can you explain what the administration's position is, and whether you are just interested in revenue charges, or whether it should make the program work more effectively?

Mr. STOCKMAN. Mr. Chairman, I don't think our position has changed, and I want to say here that we appreciate the leadership you have put forward to move the proposals forward. You have done an enormous job in moving that forward in your committee.

Our concern now is that we seem to be at a loggerheads point where factions have developed regarding the deep-port fee and the inland-waterway fee, and I would certainly hope that, in response to the budget resolution that requires $2 billion in user-fee recoveries, that working with you and other parties that we might find some way to break this logjam and work and build on the measure that you have reported to see if we can get something that would be acceptable to the full Senate and to the contending parties in this conflict that we are in right now.

We are eager to get legislation passed, and you have made a good start, but working together we have to find a way to get it down the road the rest of the way.

Senator ABDNOR. We have run off in a dozen different ways here.

Mr. STOCKMAN. There hasn't been any suggestion that this ought to be taken over by the Finance Committee. There is a recognition that they claim jurisdiction, and somehow we have to find a compromise that would be satisfactory to both committees, as well as to the different points of view about the appropriate cost recovery.

I think the great breakthrough to be made is that everyone now concedes that we were right and you were right, at least on the deep-port issue, that cost recoveries to fund that program should be established. We are now hung up over the precise allocation formula, and the method behind it, but I don't think that is insurmountable; and, if we have been negligent, I apologize for that. There are a lot of things going on, but we intend to keep working with you to get this legislation enacted.

Senator ABDNOR. Thank you.

Assistant Secretary Gianelli has proposed a number of new water-project starts with new levels of individual-cost sharing. His proposals appear to be bottled up with OMB, along with other proposals that might move our water resources forward. Do you have any plans on Secretary Gianelli's program?

Mr. STOCKMAN. Yes, Mr. Chairman, we are in the process of reviewing those now, and it should not take a great deal of time. I think we will have recommendations shortly.

Senator ABDNOR. This is in the nature of an admonishment. When you get back, take a look at impact aid. There is no way for the administration to go for the lands all around us.

We have a problem. We either have to have him back, or submit questions.

What time do you have to leave?

Mr. Stockman. Mr. Chairman, I really need to be downtown at 11 o'clock. We can squeeze a few more moments out.

Senator DeConcini. I will be very short, Mr. Stockman. Thank you for being here today.

According to the latest Treasury Department bulletin, a total of nearly $42 billion in outstanding-uncollected debt exists, uncollected debt due the Government. This figure includes nearly $7.8 billion that is over 1-year old and another $7 billion that is deemed to be noncurrent. In other words, there is $15 billion, or 10 percent of the projected Federal deficit out there waiting to be collected, and $29 billion is in the Treasury Department, largely due to identified, but unpaid, tax debts. Yet, you apparently believe that only $1 billion of this massive debt can be collected in 1983. Why can't you direct the agencies and departments to retrieve say, $3 billion next year instead of only $1 billion?

Mr. Stockman. Senator, I appreciate the question. We have offered you one better than you have proposed. In the budget, there is $4 billion in receipts for accelerated-debt collection. The problem is that it is recorded on three sides of the ledger. $1.7 billion of that comes in on the receipt side as a result of the Treasury Department efforts, IRS efforts, to collect these delinquent debts on tax accounts.

The $1 million figure you see is in the allowance portion of the budget, and those are additional receipts that we expect to collect partly as a result of the legislation that is pending, so we haven't distributed it in the budget functions, and agencies, until the legislation is passed. That is now moving in the House, and we hope to get it passed.

Then, beyond that, there is $1.3 billion in collections distributed in the agency accounts. In other words, their net outlays assume a target for debt collection of $100 million, $50 million, $40 million, depending on which agency you are talking about. So when you add those three things together, overall we have $4 billion that we have targeted this year to draw out of that backlog and bring into the Treasury to help reduce the deficit.

Senator DeConcini. That is very good, and I am glad to hear it. I must admit that it is not interpreted that way, at least by this Senator, in reading your budget, but I will take your word for it. I am glad you are committed to that figure and I compliment you for it.

Your March 30, 1982, report to the Appropriations Committee on administrative expenses contains some rather shocking data regarding the amount that the Government spends annually on consultant fees. The report indicates that, although the agencies and departments reported to you that they spent $1.6 billion on consultant services based on your definition, in actuality, a total of $3.7 billion was spent on consultant services. Apparently, the Office of Federal Procurement Policy confirmed this fact with the subcommittee staff last week. The report goes on to say that OFPP is looking into why the gap between what agencies reported and what was actually spent.

You have had a month and a half to work on this, I know—and I know from reading the report that you were shocked at the revelation.

What can you tell us about the huge gap of what the agencies think they have spent on consultants and what they have actually spent?

Mr. STOCKMAN. Senator, that is a very difficult issue to deal with, because there is no standard definition of what constitutes consulting services.

Senator DECONCINI. If I may interrupt you, please, why not?

Mr. STOCKMAN. Well, we have been working on that since the first day we were in office. We have what we think is a fairly serviceable definition, but there are others who would include some things that we haven't covered. We are working to try to resolve that.

Senator DECONCINI. Is this the definition that is in the report?

Mr. STOCKMAN. That is the definition by which you get the $1.6 billion figure.

Senator DECONCINI. I see. So the difference between the $1.6 and the $3.7 billion is because there are other definitions?

Mr. STOCKMAN. There could be a more expansive definition that includes activities that wouldn't be covered by what you have before you.

Senator DECONCINI. But OFPP says they used the same definition as you used.

Mr. STOCKMAN. I wasn't aware of that. I will have to check it.

Senator DECONCINI. Would you submit something to us, because I have a hard time with this, and I hope there can be one set definition.

NEW APPROACH TO TAX SYSTEM

Let me ask one more quick question before you leave, Mr. Stockman.

There has been discussion recently about a new approach to the tax system, adopting a flat-rate tax system in place of the progressive tax that we have today with no deductions or exemptions, except personal ones for the very poorest people.

Have you given any thought to that as to how that would simplify or work with the Reagan Economic Recovery Act if we made some changes, or do you have any comments on that proposal?

Mr. STOCKMAN. Senator, I don't have any detailed comments today. Obviously that is something we are looking at, because the idea is getting much broader, and I think more serious support than it has had in a good while. In theory and concept, it is fully compatible with the essence of the President's tax program. It would lower margin rates rather dramatically and encourage people to increase their savings, and so forth. At the same time, it would broaden the tax base dramatically in order to insure that the revenue level is sufficient to meet our requirements.

I think there will be substantial internal discussion within the administration over the summer and fall, and that we would take a hard look at that in preparation for the fiscal year 1984 budget. But I would just issue or offer one caveat today, that is, anything that sounds that simple and eloquent from a distance tends to get much more complicated, much more problematic as you get closer. I asked my staff the other day whether it is true that a 15-percent flat-tax rate on comprehensive income would balance the budget, and they said yes. I said, "What if you were to include transfer payments like social security on the ground that people have already paid taxes on it? It would be a 70-percent rate." I said, "What if you were to include a $6,000 frontend deduction to take care of the lower income that you mentioned? The rate would go up to 19 percent. What if you recognized that there are probably 60 percent of all American families who own homes and made an investment in a mortgage years ago on the promise that that was tax deductible? If you were to exempt that from the income definition, then what would you need?"

Well, I could go on, but the point is, you could very easily get that flat rate up to 24 or 25 or 28 percent, if you take into account everything that is in today, like the fundamentals, the transfer payments, and other basic questions of that sort. So it is something that needs serious consideration, but also I believe it is something that has many, many problems that would have to be carefully looked at.

Senator DECONCINI. Mr. Stockman, I have introduced the legislation. I wonder if I could take the liberty of sending it to you and having your comments on it, off the record or on the record, as you like, and ask you to respond on what you think the feasibility of that legislation is. May I do that?

Mr. STOCKMAN. We will be glad to do that.

ADDITIONAL COMMITTEE QUESTIONS

Senator DECONCINI. I have a few more questions, but I will submit them for the record.

[The following questions were not asked at the hearing but were submitted to the Agency for response subsequent to the hearing:]

QUESTIONS SUBMITTED BY SENATOR DENNIS DECONCINI

TOPIC: Central Budget Management System (CBMS)

QUESTION: How much will this new system cost in fiscal year 1983, what has been spent to-date, and what system did you use before CBMS to provide this information?

ANSWER SUPPLIED BY OMB: No single system was used to provide comprehensive information about the budgetary impact of alternative proposals under consideration on a systematic basis prior to CBMS. The development of this capability is in part a response to the changing nature of the congressional budget process and in many respects it parallels the Congressional Budget Office development of three automated systems; CSS (Congressional Scorekeeping System), MYPS (Multi-year Planning System), and TAB (Tabulator).

Before the development of CBMS, several independent systems and staff support from various OMB branches provided information about the budgetary impact of policy proposals under consideration. Of course OMB Program Divisions have in the past, and will in the future provide analyses of the program and budget implications of specific programatic policy alternatives under consideration.

Two major independent systems have been used for many years to analyze and present budget data. First, the Budget Preparation System (BPS) provides support for the preparation and transmittal of the President's Budget and Budget Appendix. The BPS provides only a limited analytical capability for comparison of files in the BPS format. Second, the Budget Status System (BSS), provides a capability for analyzing components of the budget. BSS was not designed to provide for the construction of alternative budget proposals and comparisons among various budget alternatives and the President's Budget maintained on BPS. As a result, these types of analyses are difficult to do, slow in execution and limited in scope. Due to this lack of flexibility, BSS cannot effectively be used for scorekeeping and comprehensive analysis of budget alternatives.

Staff support for analyses of budget alternatives has been provided by various Budget Review Division branches. These branches will use CBMS to continue to provide support for analysis of alternative budget proposals.

Current CBMS development plans provide for $270,000 in FY 1983 and $103,000 has been spent to date. About half of the CBMS systems development initiative will be accomplished in FY 1982. To some extent this expense may be offset by other decreases in systems development expenditures.

Question: Was the OIRA budget the victim of your cutbacks imposed upon you by the rigid restraints of the Continuing Resolution, and if not, what happened to your projected increase for the Office in 1982? The Congress didn't cut you back.

Answer supplied by OMB: Estimated Office of Information and Regulatory Affairs (OIRA) expenditures for Fiscal Year 1982 will fall considerably short of our original (March 1981) estimate for several reasons. As your question suggests, stringencies imposed by the Continuing Resolution have required a deferral of expenditures in this and numerous other programs. As a result of these same fiscal pressures, we deferred development of the Federal Information Locator System (FILS), software development contract funds which were a substantial portion of our original FY 1982 request. We are now optimistic about the possibility of building FILS on existing programs in the Department of Defense which may reduce the overall funding requirements for FILS software development.

Question: What specific budget savings can you point to in 1982 and projected for 1983 in the paperwork and regulatory reform area that are directly attributable to the work of the Office of Information and Regulatory Affairs?

Answer supplied by OMB: OIRA's major purpose is to provide savings through cost-effective regulations and coordinated and efficient information policy. These savings have been provided primarily to the public through the elimination of ineffective regulations and information collections. Additionally, many OIRA actions have resulted in savings directly to the Treasury. The magnitude of these savings can be inferred from the reduced regulatory activity taking place at the agencies, an indication of which can be found in the reduced volume of the Federal Register. So far in 1982 the number of pages in the Federal Register has been running at about 65% of the level in 1980. This has resulted in a savings of $4.1 million in printing costs alone for the first four months of this year. While this figure is small compared to the Federal budget, I believe it signals a similar reduction in regulatory compliance cost experienced by the public and enforcement costs as a part of agency budgets.

Individual regulations revised with OIRA assistance have also resulted in budget savings. For example, by reducing the frequency of surveys and certifications of nursing homes and hospitals, OIRA has saved the Treasury between $25.6 and $31 million each year. This savings occurs because the Federal government payment for these certifications through contracts with State agencies will be reduced. In another instance, OIRA supported major budget cuts in EPA's Noise Control Program, which will result in less Federal noise regulation. This office cost the Treasury $7.5 million in 1980. In the paperwork area, we estimated that the 389 requests OIRA disapproved would have imposed Federal budget costs of up to $70 million.

Waste, Fraud, and Abuse:

Mr. Stockman, I believe the Administration and the Chairman of the Budget Committee, Senator Domenici, are in agreement that $2 billion in savings can be achieved in fiscal 1983 through continued crackdowns on waste, fraud, and abuse, and through improved debt collection. Frankly, I believe that we can do much, much better in both of those areas in fiscal 1983. I project that savings of $1,762,000,000 can be achieved through more belt-tightening in the areas of non-defense, administrative travel; consultant services; audiovisuals and periodicals; public affairs and advertising; and cutbacks in the operating expenses of the Federal motor vehicle fleet. I also believe that I.R.S. alone, based on the President's budget estimates, can collect a net of $1.9 billion in outstanding tax debt, and that all other agencies and Department should be able to collect about 6% of their outstanding debt, or about $747 million in fiscal 1983.

In other words, I am calling for over $4 billion in savings in these areas next year--not the rather modest $2 billion you and the Senate Budget Committee call for next year.

Why can't we get greater savings in these area in 1983 than those built into the President's 1983 budget and S. Con Res. 92? What are the remaining obstacles to making these savings, beginning in October, 1982?

Answer supplied by OMB: Mr. Chairman we believe as you do that we can achieve greater savings in these areas in 1983 than the $2 billion you cited. In fact, we are projecting savings through improved debt collection alone of just over $4 billion. The $4 billion includes the $1 billion shown in the budget as undistributed allowances, to which should be added $1.35 billion in savings distributed in agency accounts, and $1.66 billion to be achieved through increased collections of delinquent taxes by the I.R.S.

The projection of $1 billion in savings in the 1983 budget related to more efficient management in the area of fraud, waste, and abuse is a conservative estimate of the potential recoveries of money and property already misallocated and the prevention or disallowing of prospective abuses. We think this estimate is conservative because the data for the most recently reported six month period, ending September 30, 1981, shows that actual audit recoveries and management's commitment to make specific additional recoveries amounted to $653 million. On an annualized basis this would exceed the budget estimate of $1 billion.

Savings to be derived in the areas of travel, consulting services, audiovisuals and publications, and operating expenses of the Federal motor vehicle are reflected, in part, in individual agency accounts and are in addition to the fraud, waste, and abuse savings shown in the Allowances Section of Part 5 of the budget.

Has the Administration given any thought to the approach of offsetting an agency's budget request by an amount directed to be collected in debt owed that agency? This would force agencies to be more creative and aggressive in retrieving debts owed that particular agency or Department? If not, why not?

Yes, we have. Already, we have applied debt collection targets as offsets against agency outlays and we are now considering how we might use budget authority offsets as a way of motivating agencies in their debt collection activities.

And, what specific inroads into waste, fraud, and abuse can you point to as directly attributable to the work of the President's Council on Integrity and Efficiency? Be specific.

The President's Council on Integrity and Efficiency has been most effective in three important ways:

- o It provides a focus for developing interagency approaches to problems exceeding single agency capability or jurisdiction such as the development of two training courses for auditors and investigators by the Council's Training Committee. Approximately 75 IG professionals have participated in these courses at the FBI Academy and the Interagency Auditor Training Programs Graduate School.
- o It encourages the development of prevention techniques such as computer matching to detect fraud or the potential for abuse in Federally funded programs. A project undertaken by the Inspectors General of the Departments of Health and Human Services and Labor has resulted in a clearinghouse for computer match activities involving a network of state and federal participants. The project has fostered changes in OMB guidelines on computer matching to permit more extensive application of the concept.
- o The Council facilitates interagency cooperation and exchange of information on common problems. Matches

of the Social Security Administration's Master Beneficiary File against the U.S. Office of Personnel Management's annuity rolls to identify deceased individual's revealed $4.6 million in overpayments. Similar cooperation between the Small Business Administration and Department of Agriculture at a cost of $50,000 revealed $2.3 million in duplicate payments of which almost $1.3 million has been recovered.

Debt Collection:

According to the latest Treasury Department Bulletin, a total of nearly $42 billion in outstanding, uncollected debts exist in the Government. That figure includes nearly $7.8 billion that is over 1 year old and another $7 billion that is deemed as "non-current" receivables. In other words, nearly $15 billion, or 10% of the projected Federal deficit is out there waiting to be collected. Nearly $29 billion of the $42 billion is in the Treasury Department, largely due to identified, but unpaid tax debt. Yet you apparently believe that only $1 billion of this massive debt can be collected in 1983.

Why can't you direct the agencies and Departments to retrieve $3 billion next year instead of only $1 billion? After all, you have an Administration committed to grab this debt and go after revenue aggressively, and a beefed up I.R.S. workforce and a beefed up Inspector General network. Why can't we get more of that debt that is outstanding among the agencies?

Answer supplied by OMB: The FY 1983 Budget included total debt collection savings of $1.5 billion FY 1982, $4.0 billion in FY 1983, and $4.4 billion in FY 1984. These savings can be categorized as follows:

($ in millions)	1982	1983	1984
EXPECTED SAVINGS:			
Distributed in Agency Accounts	1,310	1,350	1,375
Undistributed (Allowances)....	--	1,000	1,000
Tax Receipts.................	230	1,660	2,040
Total Savings................	1,540	4,010	4,415

The savings distributed in agency accounts represent the amount of delinquent debt expected to be recovered through administrative initiatives already underway in the various Federal departments and agencies. The $1,350 million is distributed in the Budget by agency account, resulting in reduced outlays for each of the Federal departments and agencies which have sizeable delinquent debt.

The undistributed savings represents two types of savings. Approximately $500 million represents projected savings from enactment of debt collection legislation now pending in Congress. This legislation includes H.R. 2811, H.R. 4613, H.R. 4614, H.R. 5417 and the complementary Senate Bill 1249. The major savings in these legislative initiatives will come from the redisclosure of IRS addresses, charging of interest and penalties on late payments, and the use of credit bureaus. These savings will be distributed by agency account after the legislation is enacted. The remaining $500 million represents Government-wide administrative improvements including $225 million for improvements in the litigation by the Justice Department of debts owed the Government which is not easily assignable in the budget by agency. The remaining $275 million will come from administrative improvements being made by IRS to recover delinquent taxes. This is exclusive of the IRS FY 1983 revenue enhancement initiative discussed below.

The tax receipt savings reflects a major revenue enhancement initiative in the FY 1983 budget to recover over $20 billion in reported delinquent taxes. This includes substantially increasing personnel resources dedicated to recovering delinquent taxes and at the same time automating collection procedures in order to greatly improve productivity.

Freeze at 1982 Levels:

Mr. Stockman, since you submitted your fiscal 1983 budget to Congress, there has been a growing momentum in Congress and downtown in your shop, toward freezing fiscal 1983 funding in non-defense, discretionary programs, at fiscal year 1982 levels (enacted plus pay supplementals.) The current Senate Budget Committee proposal, which is backed by the President, encompasses this freeze in its spending assumptions. A freeze at 1982 levels would leave OMB at about $33.7 million or about $2.4 million below your 1983 request.

I assume that you would be prepared to live within this spending level next year, but could you tell the Committee what specific program or personnel reductions you would have to implement if we were to provide you with a fiscal 1982 budget level in fiscal 1983? Be specific and refer to your justifications when possible.

ANSWER SUPPLIED BY OMB

The final decision on a 1983 spending level for the Office of Management and Budget rests with the Congress and I am prepared to manage the agency within that level. As the budget justification to you indicated, the programs OMB is funding are required to support the President in his responsibilities and to meet specific requirements of law. Those programs would not be reduced. Alternatively, I would continue to severely curtail expenditures including overtime restrictions, printing reductions, space consolidations, travel and training restrictions, and selective hiring freezes.

Square footage

You indicate on page 15 of your justifications that in an effort to cope with the large increases in Standard Level User Charges (SLUC) in 1983 imposed by GSA, you have cut the square footage occupied by the staff from 170,880 square feet to 156,015 square feet. Now, with a full time staff of 611 in 1983 that comes to over 255 square feet per staff person.

Administrator of GSA, Gerald Carmen has recently announced a government-wide policy to shrink square footage per employee from the current standards of about 150 square feet per employee, to a new level of 110 square feet per employee. This will help force agencies to be more cost conscious and to get out of expensive leased space. Your agency obviously exceeds the new standard by 132%.

Why not cut your square footage by another 50-75,000 square feet in 1983, thus complying with Mr. Carmen's policy of reducing square footage per employee, and saving yourself a bundle in future SLUC charges from GSA? Why can't this be done?

What would be your reaction if the Committee were to direct you to do just that in fiscal 1983?

ANSWER SUPPLIED BY OMB

The space utilization rate per employee is skewed by the allocation of all the cafeteria space and many of the conference rooms to OMB's space figures. Many other parts of the Executive Office also use these facilities but the entire amount is allocated to OMB as the largest user.

The problem in reducing space is the large amount of repair and renovation costs that are necessary and the disruption to current operations. I ask that the Committee not mandate any space reduction in fiscal year 1983 because it may turn out to be "penny wise and pound foolish" when all costs are considered. We are exploring methods to economize on space and are working with GSA experts toward that end. I expect that the progress that has already been achieved will continue over the next year.

Other Services:

You are requesting $3,151,000 for 'other services' next year--about the same as in 1982. Among other things, this object class covers training and 'other miscellaneous services'.

How much of your 'other services' budget is for training? How much for miscellaneous other services? And what specific 'miscellaneous services' are covered by this appropriation?

ANSWER SUPPLIED BY OMB

The 1983 request of $3,151,000 for "other services" covers the following activities:

Training	$ 110,000
ADP	2,706,000
Xerox) Investigations) Service contracts)	335,000

Organization: Special Studies

Your organization chart on page 4 of your budget shows that 4 of your line directorate have a 'special studies' component and one other directorate has a 'special projects' division. Your justifications give us some detail as to what type of studies you will pursue in 1983, but you don't tell us how much is in your budget next year for special studies and special projects.

ANSWER SUPPLIED BY OMB

The studies detailed in the budget justification will be supported at the following funding levels:

National Security and International Affairs	$340 K
Justice, Treasury, and General Management	315 K
Natural Resources	430 K
Human Resources	360 K

QUESTION: On page 43 of your justifications you indicate that the Justice, Treaury, and General Management Division will examine, among other things, the long-term Federal policy regarding the U.S. Postal Service.

a. What specifically will this Division be looking at regarding the Postal Service?

b. When will such a long-term policy be established and presented to the Congress?

ANSWER SUPPLIED BY OMB:

As you may be aware, the U.S. Postal Service, as an independent establishment of the Executive Branch has only the subsidy portion of its budget reviewed by OMB. This involves analysis of the merits and efficiency of postal subsidies. Specifically, we have proposed an acceleration of the subsidy phase-down called for in the 1970 Postal Reorganization Act. Public service subsidies and revenue forgone subsidies will also be scrutinized as the Postal Service moves more quickly to self-sufficiency.

In the past two years other postal issues have surfaced. They include:

-- we have reservations about how extensive a role USPS should play in the electronic mail area in the next few years,

-- the nine-digit zip program which is now scheduled to begin in 1984,

-- extending metered-mail and first-class presort programs to more Federal agencies, and

-- the nature of labor negotiations which took place in July, 1982.

b: As I have indicated, many issues concerning the U.S. Postal Service are under continual review by the Justice, Treasury, General Management Division. However, these reviews are part of the routine staff support functions of the division. There are no current plans to produce any long-term policy study for presentation to the Congress.

SUBJECT: Questions for David A. Stockman Concerning Consulting Services

Question

One of the accomplishments of the Federal Personnel Division in 1982 was to formulate or present recommendations on legislative proposals involving, among other things, "consultants."

What specific recommendations have you formulated with regard to bringing the use of consultant services by the Federal Government under control? Be specific and provide copies of written recommendations made to Congress in this regard.

Answer

Our Federal Personnel Policy Division provided recommendations and coordinated OMB's review of Office of Personnel Management's draft bill to revise and clarify agency authority to directly appoint experts and consultants under an employee-employer relationship, not under contract. The resulting Administration Bill (copy enclosed) was presented to Congress May 5, 1982.

Question

Your March 30, 1982 report to the Appropriations Committee on Administrative Expenses indicated that although the agencies and Departments reported to you that they spent only $1.6 billion on consultant services (based on your definition), in actuality a total of $3.7 billion was spent on consultant services. Apparently the Office of Federal Procurement Policy confirmed this fact during a phone conversation with the Treasury, Postal Service, Subcommittee staff last week. The report goes on to say that OFPP is looking into why the gap between what agencies reported and what was actually spent on consultants.

You have had nearly 1-1/2 months to ponder this shocking revelation and talk to OFPP.

What can you tell us about the huge gap between what the agencies think they spent on consultants and what was actually spent?

Answer

OMB also noted the difference between the FY 81 consulting and related services data provided by the agency budget offices and the data reported to the Federal Procurement Data System (FPDS) by the agency procurement offices. In an effort to determine the reasons for the differences and reduce future reporting differences, we convened a meeting with representatives from the budget and procurement offices of the major agencies. The meeting revealed that much of the variance can be attributed to the inherently different reporting structures and times of reporting of the budgeting and procurement data.

The FPDS is a contract award data system which produces historical data. Procurement personnel enter into the FPDS the total amounts that may be obligated for the scope of the contracts. Entries into the system are coded in accordance with the major function of the contract requirement, i.e. studies and analyses, management studies, consultants, etc. Entries are processed before contract performance. On the other hand, the budget staff report past year data after the contract is concluded and according to legal requirements on the timing of the recording of obligations. As a result, the two figures answer two different questions:

- The FPDS data answers the question: What contracts were awarded, i.e., the total potential obligations?

- The actual year budget data answers the question: What happened to the contracts that were awarded, i.e., the total including any downward adjustments?

The difference in the amounts reported reflects the fact that program changes and funding constraints can and do affect what actually occurs. For example, a three-year contract for $1,000,000 will be coded in the FPDS as a $1,000,000 award, but actual obligations for the year may be less than the $1,000,000 originally reported to FPDS. In summary the budget and procurement personnel report the data pertinent to their operation at different times with different reporting instructions. Under the circumstances, most cases would result in the data not being identical.

As a result of the meeting, an interagency task group was formed to address this and other technical problems. The group is expected to present its recommendations to the FPDS Policy Advisory Board with the goal of making changes effective for FY 1983 reporting to the FPDS.

As you are well aware, the FY 1982 and FY 1983 amounts in the March 30, 1982 report to Congress were part of the President's 1983 budget proposals that were transmitted on February 8, 1982, slightly more than three months ago. Since that time the President has proposed changes to the current fiscal year in the form of FY 1982 amendments, supplementals, rescissions, and deferrals. Also, the President has endorsed the FY 1983 budget proposed by the Senate Budget Committee and there are a number of other FY 1983 budget proposals being contemplated by the Congress. All of these may affect what is finally enacted for FY 1982 or FY 1983. Therefore, the amounts in the March 30, 1982 reports for FY 1982 and FY 1983 are not likely to be identical to (a) the amounts that the Congress finally makes available, (b) the amounts awarded by the agencies (i.e., FPDS data), or (c) the actual amounts that are finally spent.

Enclosure

MAY 5 1982

Honorable Thomas P. O'Neill, Jr.
Speaker of the House of Representatives
Washington, D.C. 20515

Dear Mr. Speaker:

The Office of Personnel Management is submitting with this letter for the consideration of the Congress proposed legislation "To amend section 3109 of title 5, United States Code, to clarify the authority for the appointment and compensation of experts and consultants as Federal employees, and for other purposes."

This is an update of our proposal introduced as H.R. 7657 last year.

Under present section 3109 of title 5, United States Code, an agency may procure by contract the temporary (not to exceed 1 year) or intermittent services of experts and consultants, or organizations thereof, without regard to certain civil service laws, when authorized to do so by specific legislation. Individuals hired under this section are Federal employees. Unless other rates are specified in that legislation, the maximum rate generally payable to an individual is the top daily rate for grade GS-15 under the General Schedule; for certain scientific or professional positions, the maximum daily rate for grade GS-18 is authorized.

Today there are over 60 permanent statutory authorities for individual agencies to use experts and consultants under section 3109. Others are repeated annually in appropriation acts. Some permit renewal of appointments; others do not. Daily pay rates vary, with some as low as $50, to a few at the GS-18 rate.

Our proposal would clarify section 3109 by making it solely a personnel appointing authority and eliminating any connection with procurement and contracting, by updating its requirements, and by providing positive support in law for regulating the personnel aspects of employment under the authority. Other changes include removal of outdated pay rates for certain agencies or occupations; addition of definitions of experts and consultants for clarification; and extension of the principles of section 3109, insofar as practicable, to those agencies with authority to appoint experts and consultants independent of the section.

The proposed elimination of the need for agencies to have separate triggering authority in another statute before using 3109 would in no way preclude the Congress from placing appropriations or other limitations on an agency's use of experts and consultants.

The proposed legislation would further the continuing efforts of the executive branch to assure that agencies use expert and consultant services effectively and appropriately.

The Office of Management and Budget advises there is no objection from the standpoint of the Administration's program to submission of this proposal.

A similar letter is being sent to the President of the Senate.

Sincerely,

Donald J. Devine
Director

STATEMENT OF PURPOSE AND JUSTIFICATION

OF

A draft bill to amend section 3109 of title 5, United States Code, to clarify the authority for appointment and compensation of experts and consultants, and for other purposes.

The purpose of this legislation is to reform the system of the appointment and compensation of experts and consultants as Federal employees under section 3109 of title 5, United States Code.

For many years, executive branch officials and members of Congress have called attention to the need for agencies to improve their management of expert and consulting services, whether secured by contracting out or employment. Concerns noted include the use of consultant arrangements to bypass competitive employment procedures, personnel ceilings, or pay limitations; unnecessary projects; repeated extension of services which ought to be brief; assignments to policy-making work that agency officials should perform; and lack of hard data about the overall consultant picture.

Working together, the Office of Federal Procurement Policy, Office of Management and Budget, and this Office have taken certain actions to improve agency use of experts and consultants and to eliminate misuse.

This proposal would clean up problems in the employment area by clearly spelling out the terms for appointment of experts and consultants, by eliminating procurement and contracting from the provision, by providing authority, where there had been none before, for central enforcement and corrective action, and by simplifying requirements.

The use of outside experts and consultants for intermittent or temporary periods has been a long accepted practice in private business and Government. By bringing their highly specialized talents and insights to bear on new or unusual problems, these individuals help an organization to operate more economically and effectively. Because the service they provide is unique and because the length of their service is often short and uncertain, they are usually not subject to the same employment procedures as regular personnel. In the Federal service, exceptions from normal employment requirements have been authorized for experts and consultants at least as far back as the 1880's.

The principal statutory authority governing the employment of most experts and consultants in the Federal service was originally enacted as section 15 of the Administrative Expenses Act of 1946, and now appears as section 3109 of title 5, United States Code.

It is a general authority which permits an agency head, if he or she has specific statutory authorization, to "procure by contract" the temporary (not to exceed 1 year) or intermittent services of experts or consultants, or organizations of experts or consultants, including stenographic reporting services. It provides an explicit exception from laws requiring competitive appointment, position classification, and General Schedule pay levels.

For individuals serving in agencies otherwise subject to classification and pay laws, the section sets a maximum daily pay limit--either the top rate of GS-15 or the GS-18 rate, depending on the job.

As part of its general review responsibilities the Office of Personnel Management monitors the employment of individual experts and consultants primarily to assure that this authority is not used to circumvent the competitive hiring system through improper exceptions.

The general authority still serves an essential purpose for Federal managers. However, experience has shown it is unnecessarily complex and cumbersome to administer. Personnel data reports and onsite evaluation findings reflect the problems agencies have with the law, even to uncertainty as to how to count and report their experts and consultants. Its mixture of employment with procurement make it a mystery to those who wish to use it. It is confusing because of the multiplicity and variety of specific agency statutory authorizations enacted over the past 30 years to use the general authority. Among agencies, maximum daily pay rates range from $50 to Executive Level II.

Further, the general authority makes no provision for central enforcement of the terms and conditions under which the services of experts and consultants may be obtained.

SUMMARY OF PROPOSED CHANGES

1. Eliminate any reference to procuring by contract the services of individuals. One of the problems with section 3109 is that it speaks of obtaining the services of experts and consultants as Federal employees by contract. This is a continuing source of confusion to agencies since most contracts for services are made under the procurement regulations that flow from title 41, U.S. Code (Public Contracts), and are not intended to

A BILL

To amend section 3109 of title 5, United States Code, to clarify the authority for appointment and compensation of experts and consultants, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, that section 3109 of title 5, United States Code, is amended to read as follows:

"§3109. Employment of individual experts and consultants.

"(a) For the purpose of this section--

"(1) 'agency' has the same meaning as in section 5721 of this title;

"(2) 'appointed consultant' means an individual--

"(A) who has a high degree of knowledge, skill, or experience in a particular field, and

"(B) whose primary function is to serve an agency in an advisory capacity in that field, rather than to perform or supervise an operating function of the agency.

"(3) 'appointed expert' means an individual--

"(A) who has excellent qualifications and a high degree of attainment in a professional, scientific, technical, or other field,

"(B) who, because of such qualifications and attainment, is usually regarded as an authority, or as a practitioner of unusual competence and skill, by other individuals engaged in that field, and

"(C) whose primary function is to perform an operating function of an agency rather than to provide advisory services.

"(b) The head of an agency may appoint and fix the pay of appointed experts and consultants for temporary (not in excess of one year) or intermittent services, without regard to--

"(1) the provisions of this title governing appointment in the competitive service; and

"(2) chapter 51 and subchapter III of chapter 53 of this title (relating to position classification and pay rates), except that the rate of pay for any individual so appointed may not exceed the rate of basic pay payable for GS-18 unless otherwise specifically authorized by statute.

"(c) Positions in the Senior Executive Service may not be filled under the authority of subsection (b) of this section.

"(d) The Office of Personnel Management shall prescribe regulations governing the employment of appointed experts and consultants and the reporting requirements of this section, and may take such action as it considers appropriate to assure compliance with this section and those regulations, including audit of individual cases, and, if necessary, suspension of the authority to appoint experts and consultants. Agencies shall comply with the requirements of the Office, including taking any corrective action the Office may direct.

"(e) Each agency making appointments under the authority of subsection (b) of this section shall provide such information and reports as the Office of Personnel Management requests.

"(f) The head of any agency with statutory authority to appoint experts and consultants without regard to the provisions of this section shall, to the extent practicable and in keeping with the provisions of such authority, appoint such experts and consultants in a manner consistent with the principles of this section.

SEC. 2. The table of sections at the beginning of chapter 31 of title 5, United States Code, is amended by striking out the item relating to section 3109 and inserting in lieu thereof the following new item:

"3109. Employment of individual experts and consultants.".

SEC. 3. The amendments shall take effect one hundred and eighty days after the date of enactment of this Act.

Section Analysis

Present section 3109 of title 5, United States Code, authorizes Federal agencies to obtain the services of experts or consultants, or organizations thereof, by contract under certain conditions, without regard to key civil service laws. This legislative proposal would amend the section.

The revised subsection (a), first section, continues the present definition of agency, and adds definitions for consultant and expert.

In subsection (b), the existing requirement for agencies to have specific authority in separate appropriation or other legislation in order to use this section is eliminated to permit agencies to use the section directly without further authorization. This change would not affect Congress' power to place appropriations or other limitations on an agency's use of experts and consultants. Present authority to "procure by contract" the services of individuals and organizations is eliminated. As revised, the authority will only permit appointment of individuals for personal services in an employer-employee relationship. Authority for agencies to procure services of organizations by direct negotiation as an exception to formal advertising requirements is deleted as superfluous. Agencies have broad authority to procure services under Federal procurement regulations and 10 U.S.C. 2304 and 41 U.S.C. 252 grant exceptions to agencies from advertising when procuring personal or professional services. Present authority for individuals to serve on a temporary (not to exceed 1 year) or intermittent basis is continued without change.

In subsection (b)(2), present exceptions from the classification and the General Schedule pay laws are continued. The maximum rate payable to individuals would be set at the equivalent of GS-18. Under present section 3109, as interpreted by the Comptroller General, the maximum rate payable is the equivalent of the GS-15 rate unless higher rates are authorized in separate legislation, or unless the position is in certain scientific or professional categories in which the rate can go up to the GS-18 equivalent. Authority for the White House Office (Level II), GAO (Level V), and a few other agencies with express statutory authorization to pay higher rates under section 3109 would continue.

The present subsection (b)(3), concerning advertising requirements for services to be acquired by contract, has been omitted as unnecessary since the subject is treated under the procurement laws and regulations.

Subsection (c) continues the present restriction against using section 3109 to fill SES positions.

Subsection (d) would require the Office of Personnel Management to prescribe regulations concerning the employment of individual experts and consultants appointed under the section and would require agencies to take corrective actions the Office directs. The subsection would permit the Office of Personnel Management to see that agencies are following the provisions of section 3109 in the same manner that the Office carries out its evaluation and compliance responsibilties for all other agency personnel management activities which are subject to OPM review.

Subsection (e) would require agencies to provide the Office of Personnel Management with data and other information which is essential for effective oversight of agencies' use of experts and consultants. Neither this subsection nor subsection (d) above would require the National Security Agency to disclose information which is protected by section 6 of the National Security Agency Act, Public Law 86-36.

Subsection (f) would require agencies which have a statutory authority for appointing experts and consultants other than 5 U.S.C. 3109, to the extent they consider it practicable and in keeping with the provisions of their authorities, to employ experts and consultants consistent with the principles of this section.

Subsection (f) would not apply to independent statutory authorities including (1) those for appointment to particular occupations such as the Veterans Administration's authority in 38 U.S.C. 4114 to fill physicians, dentists, and certain other positions, and (2) for the Attorney General to acquire the services of witnesses under authorities other than those for the appointment of experts and consultants.

Section 2 amends the analysis of chapter 31 of title 5 to agree with the new catchline for section 3109.

Section 3 provides a 180-day period for agencies and the Office of Personnel Management to make effective preparation to implement this legislation.

This leads to uncertainty about whether employment or something else is involved when an individual's services are procured by contract under section 3109, that is, whether these are really appointments in the usual sense. The provision for contracting for personal services in section 3109 tends to blur the generally-accepted boundaries between "procurement" and "employment" and it should be eliminated.

The thrust of section 3109 is to permit appointment of experts and consultants as employees outside of the civil service and classification laws. To accurately reflect that intent and the relationship between the agency and the individual experts and consultants it hires, the proposal substitutes "appoint" for "procure by contract" in the present law.

This amendment would not affect agency authority under procurement laws to contract for services, including those of experts and consultants, since these are not employer-employee situations. It is important to note that the oversight role of the Office of Personnel Management respecting experts and consultants would be concerned solely with those who serve the Government as Federal employees. Its mandate as the central personnel agency is personnel management. The field of procurement management, of contracting for goods and services, is a world apart and subject to other statutes and oversight by other agencies.

The provisions in the present law to "procure by contract" the services of organizations of experts and consultants and to negotiate directly with contractors without regard to statutory advertising requirements would be eliminated as unnecessary. The broad general authority agencies have to contract for services under Federal procurement regulations would include authority to contract with organizations of expert and consultants.

Comparable exceptions for obtaining "personal or professional services" without formal advertising already appear in procurement laws including 10 U.S.C. 2304 and 41 U.S.C. 252.

2. Eliminate the requirement for each agency to have a separate statutory "triggering" authority before it can use the general statutory authority.

It has become almost commonplace to grant the required authorization. Almost all agencies have the authority. Over sixty authorities appear in permanent legislation. Others appear annually in appropriation acts. The General Accounting Office some time ago recommended simplifying the section to provide a self-contained authority for hiring experts and consultants by eliminating the requirement for authorizing language in organic or appropriation acts. Needless to say, elimination of the need for separate statutory authority in no way would preclude Congress from placing appropriations or other limitations on an agency's use of experts and consultants.

3. Increase, for the few agencies restricted to lower rates, the top pay rate to grade GS-18 for individuals for all occupations in agencies otherwise subject to the classification and pay laws. The proposal would set grade GS-18 as the general maximum pay rate for jobs in agencies subject to the classification and General Schedule pay laws. This is a conforming change to give all agencies authority to pay up to the same general maximum. Congress already has authorized the grade GS-18 rate when establishing new agencies in recent years. Some older permanent statutory authorizations limit pay to $100 a day or less--too low a rate to generally attract good personnel. At present, unless an agency has a specific rate set by its individual statutory authority triggering section 3109, it may pay up to the maximum of the GS-15 rate. (A Comptroller General decision says a GS-18 rate may be paid but only for professional work in research or in the hard sciences.)

4. Provide central enforcement authority and put definitions in law. Although onsite evaluations show the majority of individual experts and consultants hired are qualified, serve briefly, and otherwise represent proper use of the authority, agencies at times misuse it. For example, the work may become indistinguishable from that regularly performed by career employees, or the time limits on service in section 3109 may be exceeded.

Accordingly, two changes are proposed to improve agency use--defining key terms in the legislation itself and assigning the Office of Personnel Management regulatory authority. The present statute does not define key terms, although administrative definitions have been developed over the years in the instructions of the former Civil Service Commission and in Comptroller General decisions. Placing these definitions in the law itself is needed for clarification.

Section 3109 does not give regulatory authority to any agency. In the past, the former Civil Service Commission asserted technical jurisdiction because it was responsible for determining coverage under the civil service and classification laws and misuse of the authority was, in effect, an illegal exception from those laws. In recent years, in attempting to respond to agency challenges on legal grounds to its authority in this area, the Commission found there was little legal support for preventing misuse based on those laws.

Authority to prescribe regulations and to take corrective actions would give necessary legal support to the Office of Personnel Management's present onsite evaluation and agency self-policing efforts. Authority to use the section would rest with the management of each agency subject to regulation and oversight by the Office of Personnel Management.

The Office would see that the criteria for experts and consultants and the time limits on duration of service have been applied. It would protect regular, continuing job opportunities for career employees against improper assignment of experts and consultants, and guard against use of the authority for work which ought to be in the Senior Executive Service.

In those instances where an individual agency misuses the authority, a variety of enforcement tools would be available for use when we believe it is necessary--including prior or post appointment review of individual agency selections, and in special circumstances, suspension of an agency's authority to hire experts or consultants pending compliance with the statute or with OPM's regulations.

The proposal provides that the small number of agencies with authorities independent of section 3109 would conform to the principles of the section.

The proposal would not have an inflationary impact nor would it require additional appropriations or outlays.

QUESTION:

THE OFFICE OF PERSONNEL MANAGEMENT IS PANIC STRICKEN THAT THEY WILL HAVE INSUFFICIENT FUNDS TO MEET REQUIRED PAYMENTS TO HEALTH INSURANCE CARRIERS ON OR AFTER JUNE 30.

IF WE ARE TO BELIEVE THE PEOPLE FROM OPM MOST HEALTH INSURANCE PLANS WILL BE VOID AFTER JULY 1st. WHAT CAN YOU TELL US ABOUT THIS IMBROGLIO AND SHORTAGE OF FUNDS?

ANSWER:

Payments to health insurance carriers for health plans negotiated for CY 1982 are made from the Federal Employees Health Benefits Fund. Federal agencies transfer money to that Fund to cover their share of health premium costs for employees. The employers share of premium costs for annuitants is paid into the Fund by OPM from the transfer account "Government Payment for Annuitants, Employees Health Benefits."

Without the supplemental requested in the 1983 budget there would be insufficient funds to cover the transfer payments for annuitants to the Fund in July, August, and September. In view of program instability over the last year, OPM is appropriately concerned that further instability be avoided by eliminating any appearance of fund shortage. It is our understanding that the supplemental will be considered by the Congress in June. Thus, we anticipate that the transfer payments can be made to the Fund on a timely basis.

For your personal information

We believe that there are sufficient assets in the fund itself to make the payments to the carriers until the supplemental passes. However, OPM disagrees because they are uncomfortable about using those assets.

SUBCOMMITTEE RECESS

Senator **Abdnor**. We appreciate your coming here today. If necessary, we can always ask you to come back.

Mr. **Stockman**. Thank you very much.

Senator **Abdnor**. The subcommittee will stand recessed until 2 o'clock. We will then receive testimony from public witnesses.

[Whereupon, at 10:55 a.m., the subcommittee was recessed, to reconvene at 2 p.m., the same day.]

(AFTERNOON SESSION, 2 O'CLOCK, WEDNESDAY, MAY 12, 1982)

NONDEPARTMENTAL WITNESSES

AMERICAN BAR ASSOCIATION

STATEMENT OF M. BERNARD AIDINOFF, CHAIRMAN-ELECT OF THE SECTION OF TAXATION, NEW YORK, N.Y.

ACCOMPANIED BY EDWARD N. DELANEY, WASHINGTON, D.C.

Senator ABDNOR. The subcommittee will be in order.

Today, we are completing our hearings on the fiscal year 1983 budget for the Treasury, Postal Service, and General Government of the appropriations bill.

This afternoon we will accept evidence from public witnesses who have an interest in this legislation. We have a goodly number of witnesses, because our appropriation bill does cover a goodly number of agencies and subjects, so we will ask our witnesses to be brief and limit their remarks to 5-minutes' duration.

I do want to assure everyone that testifies that their entire statement will be inserted in the record.

Our first witness this afternoon is the American Bar Association, Bernard Aidinoff and Mr. Delaney here representing the American Bar, and we welcome you gentlemen.

Mr. AIDINOFF. I am M. Bernard Aidinoff, chairman-elect of the section of taxation of the American Bar Association. I am accompanied by Ed Delaney, who is the incoming chairman of the section.

We appear today to urge this subcommittee to approve the urgent supplemental appropriation request of the Tax Court for the fiscal year 1982, and to approve the appropriations request of the U.S. Tax Court for the fiscal year 1983 on or before the commencement of that fiscal year.

We also ask you to review carefully the budget and appropriation needs of the IRS.

First, let me discuss the U.S. Tax Court. The U.S. Tax Court is a court of national jurisdiction. It is the only forum in which taxpayers can have a judicial hearing of their tax controversies without first paying their tax.

The Tax Court handles approximately 90 percent of all litigation involving Federal tax matters, and is held in the highest esteem by the organized tax bar.

The importance of this court, in the eyes of taxpayers, is indicated by the fact that the court currently has a backlog of approximately 50,000 cases, more than double that of 5 years ago, despite extraordinary efforts by this court to dispose of an increasing number of cases, and despite the fact that three additional judgeships have been created, which judgeships have been filled.

The court is faced at this time with a major emergency. Funds necessary for its continued operation on an efficient and timely basis have not been appropriated. For fiscal year 1982, the court requested an appropriation of $12.4 million. Unfortunately, congressional action on its budget request has not been completed, and it has been limited this year to a total budget of $10.5 million which is $500,000 less than the court appropriation of $11.1 million for the fiscal year 1981.

The result of this has been a shortfall of funds by the court, and the result has been that the court was compelled to suspend all trial sessions that had been scheduled for the month of April outside of Washington, and several of the trial sessions scheduled for May 1982. These sessions have been tentatively rescheduled for July and August, and since then the court has been compelled to defer additional trial sessions scheduled for the month of May.

If supplemental appropriations are not forthcoming soon, it is likely that all sessions scheduled through September 1982 will be deferred or canceled. I might point out that the Tax Court holds trial sessions all over the country, primarily for the convenience of taxpayers, and it is the elimination of these trial sessions which is so important and which is harmful both to our Treasury and to taxpayers who are not able to dispose of their dispute.

I might point out that the reduction that has taken place for the Federal judiciary generally during the past year has only been 4.2 percent, whereas the reduction for the Tax Court this year has been 16 percent.

To the extent that the budget shortfall at the present time is not rectified, this, of course, would put increased pressure on the court for fiscal year 1983, since it will mean an increase in the backlog and a necessity for more court sessions next year and increased pressure on that court to perform its statutory functions within the necessary budget framework.

Accordingly, we urge that this subcommittee not only appropriate a supplemental amount of approximately $1½ million so that the Tax Court can continue its work this year, but we urge that the members of this subcommittee and the Congress approve in full the court's request for a fiscal year 1983 budget appropriation of $15,083,000.

I might point out that it is essential for our self-assessment system to work to have a court, such as the Tax Court, functioning on a full-time basis. It is a respected, judicial forum, respected by the bar, respected by the taxpayers, and respected by other courts.

We also urge on you a capital review of the Internal Revenue Service budget. Over the last 15 years, it has been a substantial reduction in the audit coverage by the Internal Revenue Service.

At the same time, there has been a perception that there has been a substantial increase both in the amount of unreported income by taxpayers and the claiming of deductions which are not proper.

It is the view of tax practitioners who indicated throughout the United States that increased audit coverage substantially reduces the amount of unreported income, causes better compliance by taxpayers, and generally improves the effectiveness of our self-assessment system.

I know that you are familiar with the various figures that have been published on the amount of unreported income, amounts that exceed $100 billion, and which may in the future increase even further. I think it is significant to note that, if one goes back to the late 1960's, approximately 5 percent of all returns were audited. Today, slightly more than 2 percent of the returns are audited, and the Internal Revenue Service now estimates that in the next fiscal year only about 1.6 percent of returns will be audited.

There has been demonstrable proof over the years that increased amounts of money spent on compliance yield additional tax revenues, and that these range from $5 to $20 per extra dollar spent on compliance.

We, on behalf of the American Bar Association, believe that it is terribly important that we protect our self-assessment system, make it work like it has worked in former years. In order to do so, the Internal Revenue Service needs appropriate funds, and we suggest to you that increased appropriations are appropriate for that function.

Thank you, sir.

Senator ABDNOR. Thank you, Mr. Aidinoff. You quoted the figures in the budget, and contrary to a lot of other areas, this does show certainly more of an increase called for than in other parts of our bill.

I might say that Judge Tannenwald has done a very fine job of keeping us informed himself. He has a very effective communications with us, and he has talked to a lot of Senators. He has them all convinced.

Mr. AIDINOFF. The concern for the Tax Court extends throughout the organized bar.

Senator ABDNOR. Yes; I am sure of that. I am saying that he is a very concerned person and has brought it to our attention. We hope that the supplemental will—I guess the supplemental will be on the House side finally, and I am sure we are going to act judiciously over here if we ever get it over here, because the last round of tax cuts are difficult for some of the agencies to operate under. We do appreciate the group you represent, and we know you know what you are talking about from your profession and your experience, and we appreciate this very much.

We are very much aware of this, and I think a $500 million increase in the IRS will surely help in some areas; and, of course, the tax-cut budget from what we asked and appropriated last year is up almost a third again as much. I hope this will be of some assistance and help, because today we have heard many of the comments about the uncollected taxes due to the Government, and hopefully this will get us on the right track. I am sure Senator Dole and his committee will go after it, too. Thank you very much.

Mr. AIDINOFF. Thank you, sir.

Senator ABDNOR. When you go hunting, you let me know. Check with me on the report.

Mr. DELANEY. I will do that.

PREPARED STATEMENT

Senator ABDNOR. We will include your statement in the record.

[The statement follows:]

STATEMENT OF M. BERNARD AIDINOFF

INTRODUCTION

I am M. Bernard Aidinoff, New York, N.Y., Chairman-Elect of the Section of Taxation of the American Bar Association. I am accompanied by Edward N. Delaney, Washington, D.C., chairman of our subcommittee that is responsible for considering issues relating to the budgets of, and appropriations for, the United States Tax Court and the Internal Revenue Service.

We appear today at the request of David R. Brink, President of the American Bar Association, to express the views of the Association with respect to some very important appropriations issues. The 275,000 members of the American Bar Association have long been concerned with the efficient and effective operation of the judicial system of the United States. The 25,000 members of the Association who are also members of its Tax Section are deeply concerned as to the continued effectiveness of the United States Tax Court and the Internal Revenue Service. In a larger sense, our concerns go to the continued viability of the self-assessment tax system, of which we in the United States are so justly proud, even though strains are developing in that system.

We appear today to urge this Subcommittee and the United States Congress to:

1. approve the urgent supplemental appropriation request of the United States Tax Court for the fiscal year 1982;
2. approve the appropriation request of the United States Tax Court for the fiscal year 1983 on or before the commencement of fiscal year 1983; and,
3. review carefully the budget and appropriation needs of the Internal Revenue Service.

THE UNITED STATES TAX COURT

The United States Tax Court, a court existing under Article I of the Constitution, is a court of national jurisdiction, headquartered in Washington, D.C. For the convenience of taxpayers, the Court exercises its jurisdiction by assigning its judges to trial calendars held in cities throughout the United States. The selection of trial sites is based upon considerations of both efficiency and convenience of taxpayers seeking resolution of their differences with the Internal Revenue Service.

The United States Tax Court is the only judicial forum available where a taxpayer may take his tax case without first paying the tax and then suing for a refund. In the Tax Court the taxpayer can test the validity of an Internal Revenue Service determination against him before the tax is required to be paid.

The Tax Court handles approximately 90 percent of all litigation involving Federal tax matters, and is held in the highest esteem by the organized tax bar. The Tax Court supplies the critical elements of procedural and substantive due process in the resolution of tax disputes. It fulfills a unique and essential role in interpreting the tax laws of this country so as to create precedents of far more importance in tax administration than any other court in the Federal judicial system.

An essential part of the Court's function is administered through its enormously important Small Tax Case Process, under which the Court decides, quickly and efficiently, cases where the amount in dispute is $5,000 or less. In many of these cases, perhaps the majority of them, taxpayers represent themselves because of the relatively small amounts in dispute.

The importance of the Court in the eyes of taxpayers who disagree with an IRS determination is reflected by the fact that the Court's backlog of cases is approaching 50,000, more than double that of five years ago, despite extraordinary efforts by the Court to dispose of an increasing number of cases each year. Congress, in recognizing the essential nature of the Court, provided for three additional judgeships in 1980. Those judgeships have been filled.

Nevertheless, the Court is faced at this time with a major emergency. Funds necessary for its continued operation on an efficient and timely basis have not been appropriated.

For fiscal year 1982, the Court requested an appropriation of $12,404,000. Unfortunately, Congressional action on its budget request has not been completed. Under the Continuing Resolutions passed by this Congress, the Court is required to operate within an appropriation ceiling of $10,560,000. This amount is more than $500,000 less than the Court's appropriation of $11,094,000 for fiscal year 1981. The present Continuing Resolutions impose a 16 percent cut in the appropriation request of the Court.

The size of this reduction is particularly striking when compared to appropriations for the balance of the Federal judiciary for fiscal year 1982. Appropriations for the Federal judiciary reflect, in general, a 4.2 percent reduction from their requested budgets.

The reduction resulting from the limitations imposed on the Court by these Continuing Resolutions seriously impairs the operation of the Court and its ability to provide taxpayers with a judicial forum for the resolution of their disputes. On April 6, 1982, the Court was compelled to suspend all trial sessions that had been scheduled for the month of April, 1982, and several of the trial sessions scheduled for May, 1982, because of lack of funds. These sessions have been tentatively rescheduled for July and August, 1982. Since then, the Court has been compelled to defer additional trial sessions scheduled for the month of May. If supplemental appropriations are not forthcoming soon, it is likely that all sessions scheduled through September, 1982, will be deferred or cancelled.

The rescheduling or deferral of court sessions does great harm to the fairness and justice of the tax system. At a time when the interest rate on tax deficiencies is, by statute, 20 percent, justice delayed may indeed be justice denied. Taxpayers who lose the right to timely judicial resolution of their disputes with their Government soon become disillusioned with the fairness of the tax system. It is the best judgment of experts in tax administration that this public attitude of distrust and the perception of unfairness results in serious erosion of our self-assessment tax system. This, we submit, is unacceptable.

We urge that this Subcommittee and its members undertake whatever action is necessary to see that the Congress approves, at the earliest possible date, the urgent supplemental appropriation of a minimum $1,500,000 for the Tax Court. Furthermore, we urge that the members of this Subcommittee and the Congress approve, in full, the Court's request for a fiscal year 1983 budget appropriation of $15,083,000.

It is our view that the urgent supplemental appropriation and the budget request of the Court for fiscal year 1983 are essential if the Court is to meet its obligation to provide taxpayers with an efficient, timely, and convenient forum for the resolution of their disputes with their Government. It is critical to the maintenance of our self-assessment system that such a judicial forum be available to taxpayers.

INTERNAL REVENUE SERVICE

The American Bar Association and its Tax Section have been seriously concerned for more than a decade as to budget and personnel limitations imposed upon the Internal Revenue Service. It was, and is, the view of the Association, and the Tax Section, that serious negative consequences result to our self-assessment tax system from such limitations.

In 1969, a resolution adopted by the Association recommended that the Internal Revenue Service be exempted from broad personnel and funding limitations. In commentary on that resolution, it was noted that the appropriation and personnel limitations proposed for that year would reduce the audit coverage level of tax returns, which in 1967 was approximately 5 percent of all returns filed, to approximately 3 percent of all returns filed in 1968. We warned of the adverse impact of the reduced audit coverage.

It has long been our view that there is a direct relationship between the level of audit coverage, the perception that taxpayers have of the level of audit coverage, and the level of voluntary compliance with the self-assessment tax system. We believe that the views we expressed in 1969 have been fully justified by the declining level of compliance with the tax system.

In recent testimony before Congressman Rosenthal's Subcommittee on Commerce, Consumer and Monetary Affairs of the House Committee on Government Operations, the General Accounting Office noted that the "Taxpayers Compliance Measurement Program" surveys undertaken by the Internal Revenue Service reflected the fact that in the eleven year period from 1965 to 1976, taxpayer compliance rates in terms of dollars of tax liability accurately reported dropped from 94.3 percent in 1965 to 92.3 percent in 1976. It was also pointed out that the 2 percent drop in compliance rate was estimated to have resulted in the loss of $9 billion of revenue to the Treasury. It is a fact that during the period from 1965 to 1976, the audit coverage level fell from something in excess of 5 percent of all returns filed in 1965 to 2.6 percent of the returns filed in 1976.

Senator Dole, Chairman of the Senate Finance Committee, at a press conference held on March 3, 1981, displayed charts prepared on the basis of Internal Revenue Service studies to dramatize the startling fact that the income tax "compliance gap" grew from $21 billion in 1973 to $76 billion in 1981.

Some other estimates of the compliance gap put it as exceeding $100 billion at the present time. This tax compliance gap consists principally of the failure to report income from activity that is legal, and from the overstatement of deductions. Only 10.5 percent of the compliance gap flows from income from illegal sources.

By 1981, the level of audit coverage of all tax returns filed with the Internal Revenue Service had fallen to approximately 2 percent. It is our understanding that the level of audit coverage for fiscal year 1983 (even under the expanded budget that the Internal Revenue Service has requested for that year) will be only 1.67 percent of filed returns. We project that if this occurs, the compliance gap will grow still larger.

We submit that this Subcommittee should carefully review the question whether a budget request that provides for an audit level coverage of only 1.67 percent, even with the enactment of legislation presently proposed which seeks to improve compliance, is an adequate budget. Senator Dole noted that the Internal Revenue Service estimated that if the tax compliance gap were to remain unchecked, the loss to the Treasury would increase to $102 billion by 1985. We suggest that it could become even larger. This, we submit, is unacceptable.

Decreased audit coverage levels support the perception held by some taxpayers that ignoring or refusing to meet fully and fairly their tax obligations will likely go undetected. Such an attitude not only directly reduces revenues to the Treasury, but it seriously impairs the self-assessment system since other taxpayers, who have been fully and fairly meeting their tax obligations, conclude that there is no reason to continue to do so.

The Tax Section does not have access to sufficient information to say what is the most effective number of people to be employed by the Internal Revenue Service, or the exact amount of the budget that should be appropriated for the optimal operation of the Internal Revenue Service. Nevertheless, the views of responsible tax practitioners from geographically-dispersed areas of the United States are unanimous that the noticeable decline in audit coverage, the limitation on the number of personnel available to accomplish the mission of the Internal Revenue Service, and government salary limitations are adversely affecting the operations of the Internal Revenue Service and our self-assessment tax system

We are also of the opinion that the limiting of telephone assistance to taxpayers, and the reduction in funding of other taxpayer service programs, will have a major adverse impact on tax compliance. To avoid compliance problems that we believe will arise out of the reduction in taxpayer assistance programs, and in an attempt to further the image of the fairness and impartiality of our tax system, we submit that is is imperative that existing taxpayer assistance programs be preserved, and in fact strengthened. We do not suggest that these taxpayer assistance programs cannot be improved in quality and effectiveness. With more imagination, they can substantially increase the public perception of fairness of the tax system and the level of voluntary compliance. They should not, however, be discontinued.

In conclusion, we urge this Subcommittee to study carefully the needs of our self-assessment tax system and to provide for its successful continuation by authorizing a sufficient number of personnel for its needs. This Subcommittee must adequately fund the Internal Revenue Service so that it can fulfill its assigned mission. We believe that in times of large deficits, the vitality of the self-assessment tax system is of the greatest possible importance. While there may be some disagreement as to the exact amount of additional revenues resulting to the Treasury from each dollar expended by the Internal Revenue Service in compliance activity, there is no question but that the return ranges from $5 to $20 of revenue collected for each $1 expended. The impact of such activity on voluntary compliance levels is, we submit, even more important.

NATIONAL RETIRED TEACHERS ASSOCIATION AND AMERICAN ASSOCIATION OF RETIRED PERSONS

STATEMENT OF WILLIAM McMORRAN, DIRECTOR, TAX AID PROGRAM

ACCOMPANIED BY:
STEVEN ZALEZNICK
WILLIAM C. CANUP

PREPARED STATEMENT

Senator ABDNOR. The next group is the Retired Teachers Association on tax counseling for the elderly.

Mr. MCMORRAN. Mr. Chairman, and members of the subcommittee, my name is William McMorran. I am the national coordinator of the associations' tax aid program which has been funded under the TCE program for the last 3 years. I am accompanied by Steve Zaleznick and William Canup of our tax aid program staff. I am representing Jim Hacking.

We appreciate the opportunity to testify on behalf of our 13½ million members today. I have submitted a formal statement, and I will condense my comments to the main points.

Senator ABDNOR. I assure you, the whole statement will be made part of the record.

[The statement follows:]

STATEMENT OF THE NATIONAL RETIRED TEACHERS ASSOCIATION AND THE AMERICAN ASSOCIATION OF RETIRED PERSONS

Mr. Chairman and Members of the Treasury, Postal Service, and General Government Appropriations Subcommittee, I am Jim Hacking, Assistant Legislative Counsel for the National Retired Teachers Association and American Association of Retired Persons.

I appreciate the opportunity to testify on behalf of our 13.5 million members. I plan to be brief because I know that your time is limited.

Our Associations have two modest proposals to offer to the Subcommittee.

A. Fiscal Year 1982 Supplemental for Tax Counseling for the Elderly

First, we recommend that the Subcommittee increase funding by $340,000 in the Fiscal Year 1982 Supplemental Appropriations Act for the Volunteer Income Tax Assistance (VITA) program, from $1.96 million to $2.3 million. This is the same amount as appropriated in FY 1980 and FY 1981. We recommend that the entire $340,000 increase be applied to the Tax Counseling for the Elderly (TCE) program. The effect would be to boost funding for TCE from $660,000 under the continuing resolution to $1 million. This is the same amount that the Congress appropriated for TCE in FY 1980 and FY 1981.

For FY 1982, the Senate Appropriations Committee voted $2.3 million for VITA, including $1 million for TCE. The House has approved $1.96 million for VITA, of which $660,000 is allocated for TCE.

Funding is needed for FY 1982 -- even at this late date -- to insure reimbursement for all volunteers. A clause permitting retroactive reimbursement -- along the lines that was adopted in the Supplemental Appropriations and Recession Act, Public Law 97-12 -- is necessary so that all volunteers can be reimbursed as promised.

As you know, VITA provides tax counseling assistance for individual taxpayers in a wide range of settings. The Internal Revenue Service provides training and technical assistance to prepare volunteers to be tax counselors. TCE is a component of VITA, and it provides tax counseling for individual taxpayers 60 or older.

TCE volunteers are reimbursed for travel and their out-of-pocket expenses.

Our Associations believe that reimbursement is vital for TCE because it enables volunteers to serve elderly shut-ins. Moreover, reimbursement makes it possible for TCE volunteers to reach out to rural communities and constituency groups -- such as minorities -- who might not otherwise be served.

It is crucial now that this small $340,000 supplemental request for TCE be approved. TCE programs were heavily committed and already structured in autumn 1981 for the 1982 tax season. In addition, there was an unprecedented demand for TCE services this year because many older persons were referred to TCE by the IRS. Many older persons also cashed in securities in 1981 to make ends meet. Further, the 1981 Economic Tax Recovery Act made changes in the tax law which increased the complexity of the elderly's returns -- at a time when the cost of professional tax preparation services was rising.

Many older volunteers -- a large proportion of whom have more limited incomes -- will not be reimbursed or at a lower rate if the $340,000 is not approved. They reasonably expected to be reimbursed, and the Associations believe they should be. Private organizations -- such as NRTA-AARP -- have already made major contributions so that tax preparation services can be more readily available for the elderly. If we are forced to use any more of our overcommitted resources, this will impede our ability to carry on Tax-Aide programming, and will almost assuredly cause a major reduction in future services.

For these reasons, we reaffirm our request that an additional $340,000 be provided in the Supplemental Appropriations Act for TCE.

B. Fiscal Year 1983 Appropriation for TCE.

Second, the Associations recommend that TCE be funded at least at $1 million for FY 1983, and preferably at $1.3 million if this could be permitted within the tight constraints of the budget.

The Administration has recommended $1.46 million for VITA, including $160,000 for TCE. This is simply inadequate. Even during this austere period, this decision does not make sense budgetarily, economically, or otherwise.

The Associations believe that it is in the interest of our Nation, the IRS, and the elderly to fund TCE at least at $1 million. This is $840,000 above the Administration's budget request, but it is money well spent. We are convinced beyond any doubt that this small appropriation will produce additional revenue for the Treasury far in excess of the $1 million expenditure.

The record of TCE clearly demonstrates that volunteer tax consultants can improve taxpayer compliance. This not only assures that taxpayers pay what is lawfully due the government, but it also reduces IRS administrative costs.

Each Member of the Subcommittee -- I am sure -- has read accounts about the enormous amounts of income that go unreported each year. Our budget deficit would be substantially reduced if everyone reported his or her income in full. There are, of course, wilful cheaters, and they must be dealt with appropriately. However, some taxpayers -- such as the elderly -- many not report all of their income because of their unfamiliarity with the tax laws. Many, for example, mistakenly believe that it is not necessary to list interest income on their returns if the amount is less than $10. Others may forget to list gains on the sales of capital assets.

TCE is vitally important for IRS because the taxpayer service capabilities are limited by budgetary constraints. This is especially true now because the Administration proposes major reductions in taxpayer services. Voluntary tax counselors can be particularly helpful in closing the gap between the public need for assistance and the IRS capability to respond by covering assistance sites formerly staffed by IRS personnel.

IRS also frequently asks TCE counselors to assist shut-ins because these volunteers are reimbursed for their travel expenses. The Associations' Tax-Aide program, for example, assisted 12,000 shut-ins last year.

In addition, TCE volunteers can build upon IRS training activities to insure more intensive and comprehensive instruction than IRS can provide. The Associations' Tax-Aide program typically offers a five-day block of instruction to train tax counselors. This permits our volunteers to have more in-depth instruction and knowledge of the tax code. We strongly believe that this additional effort pays off by making our tax counselors more accurate and efficient. In 1980, for example, the error rate for tax counselors in Yuma, Arizona, who were taught by NRTA-AARP Tax-Aide volunteers, was less than 0.4 percent. These volunteers prepared more than 750 returns and made only three errors.

Older Americans also benefit from TCE, particularly those who need assistance but cannot afford to pay a preparer. Competent volunteer tax counselors can help prepare accurate returns for these individuals.

IRS estimates that about 96 million individual tax returns will be filed during fiscal year 1982. Millions of taxpayers found Form 1040 with its accompanying schedules to be an agonizing -- and quite often a mind boggling -- experience.

However, it may be even more complicated for older Americans because they are frequently exposed to new and more complex rules upon reaching retirement age. Elderly widows perhaps experience the most serious problems because they typically have little or no experience in preparing a tax return. The net impact is that the tax form can be like a labyrinth with linguistic booby traps for older persons. Tax counseling assistance, though, can help elderly persons overcome these obstacles. It can also enable them to comply with the tax law while claiming every benefit to which they are entitled.

IRS has repeatedly stressed over the years that no taxpayer should pay more tax than legally required. Our experience at the Tax-Aide program makes it abundantly clear that numerous elderly persons needlessly overpay their taxes each year, for a variety of reasons. Some are confused by the tax form. Others are unaware of available deductions, credits, and exemptions. We have assisted those who have sought our help. We have filed amended returns to claim deductions that taxpayers overlooked. We have conducted thorough interviews to insure that the elderly claim all applicable tax benefits and have checked numerous returns for accuracy.

This service is provided without "taking business away" from professional preparers. Almost all of Tax-Aide clients have moderate or limited income. However, they oftentimes have complicated tax situations -- at least from their perspective. In most cases, professional tax consultants would be required to devote considerable time to prepare a return for a comparatively small fee. This is one important reason that numerous professional preparers actually refer clients -- particularly those with limited income -- to the Tax-Aide or other TCE programs.

The Associations also want to emphasize that Tax-Aide, as well as other TCE volunteers, are specifically instructed not to prepare returns beyond their level of training. If a complicated tax situation is presented, the volunteer can refer the client to IRS or point out that private preparers are available. Counselors, though, are not allowed to recommend specific preparers.

C. Conclusion

In conclusion, TCE has worked extraordinarily well for our Nation, IRS, older and younger taxpayers, the volunteers, and others. With a modest amount of funding, this program has yielded great dividends by:

- improving taxpayer compliance and accuracy;
- reducing the IRS workload and cost in staffing service sites;
- providing specialized services to groups traditionally underserved by IRS, such as the homebound, the rural aged, and minorities; and
- providing an opportunity for older Americans to make a valuable contribution to society.

The need for TCE is crucial. This subcommittee has demonstrated leadership and strong support in the past to assure that tax counseling services remain available for the elderly and at an adequate level. We urge you to continue your backing of TCE by approving:

1. A $340,000 increase in the FY 1982 Supplemental Appropriations Act to raise funding to $1 million, the same amount as provided in FY 1980 and 1981; and
2. At least $1 million for FY 1983.

Mr. McMorran. First, the fiscal year 1982 supplemental for tax counseling for the elderly, we recommend an increase in funding of $340,000 in the fiscal year 1982 supplemental tax to the VITA program.

This is the same amount as appropriated in fiscal years 1980 and 1981. We recommend that the entire $340,000 increase be applied to the TCE program. The effect would be to increase funding from TCE from $660,000 under the continuing resolution to $1 million. Again, this is the same amount that was appropriated by Congress in fiscal years 1980 and 1981.

For fiscal year 1982, the Senate Appropriations Committee voted $2.3 million for VITA. The House has approved $1.9 million for VITA, of which $660,000 is allocated for TCE.

Funding is needed for 1982, even at this late date, to insure reimbursement for all volunteers. A clause permitting retroactive reimbursement, along the lines that were adopted in the Supplemental Appropriations and Recession Act, Public Law 97–12, is necessary so that all volunteers can be reimbursed as promised.

As you know, VITA provides tax counseling assistance for individual taxpayers in a wide range of settings. The Internal Revenue Service provides training and technical assistance to prepare volunteers to be tax counselors. TCE is a component of VITA, and it provides tax counseling for individual taxpayers 60 or older. TCE volunteers are reimbursed for travel and their out-of-pocket expenses. This last year our volunteer program had 13,000 volunteers in it, and we assisted over 1 million taxpayers.

Our associations believe that reimbursement is vital for TCE, because it enables volunteers to serve elderly shut-ins. Moreover, reimbursement makes it possible for TCE volunteers to reach out to rural communities and constituency groups, such as minorities, who might not otherwise be served.

It is crucial now that this small $340,000 supplemental request for TCE be approved. TCE programs were heavily committed and already structured in autumn 1981 for the 1982 tax season. In addition, there was an unprecedented demand for TCE services this year, because many older persons were referred to TCE by the IRS. The demand was way up. Our volunteers, in many cases, were working 40 to 60 hour weeks.

Many older volunteers, a large proportion of whom have more limited incomes, will not be reimbursed or at a lower rate if the $340,000 is not approved. They reasonably expected to be reimbursed, and the associations believe they should be. Private organizations, such as NRTA–AARP, have already made major contributions so that tax preparation services can be more readily available for the elderly. I would note that, under the law, 90 percent of the moneys that go to this program go to voluntary reimbursement. Professional and staff salaries are paid by the organization, as well as costs beyond the 10-percent limit. If we are forced to use any more of our overcommitted resources, this will impede our ability to carry on tax-aid programing, and will almost assuredly cause a major reduction in future services.

For these reasons, we reaffirm our request that an additional $340,000 be provided in the Supplemental Appropriations Act for TCE.

Second, the associations recommend that TCE be funded at least at $1 million for fiscal year 1983, and preferably at $1.3 million if this could be permitted within the tight constraints of the budget.

The administration has recommended $1.46 million for VITA, including $160,000 for TCE. This is simply inadequate. Even during this austere period, this decision does not make sense budgetarily, economically, or otherwise.

The associations believe that it is in the interest of our Nation, the IRS and the elderly to fund TCE at least at $1 million. This is $840,000 above the administration's budget request, but it is money well spent. We are convinced beyond any doubt that this small appropriation will produce additional revenue for the Treasury far in excess of the $1 million expenditure. With even further cutbacks in IRS service, the demand will be further increasing; and, while we cannot meet the full gap, our volunteers can have a major effect in reducing the pressure of taxpayers to comply with the law. We have been asked to deal with shut-ins, and go to communities where the IRS is not any longer there.

The need is for TCE to remain available to the elderly at an adequate level. We urge you to continue your backing of the tax counseling for the elderly program by approving, first, the $340,000 increase in fiscal year 1982 Supplemental Appropriations Act to raise funding to $1 million, the same amount as provided in fiscal years 1980 and 1981, and at least $1 million funding in fiscal year 1983.

Thank you, sir.

Senator ABDNOR. Thank you. That $340,000, that is in the supplemental that is taken up in the House?

Mr. MCMORRAN. No; we have recommended that to the House, that it be included.

Senator ABDNOR. Are you aware that we are adding $300 million to the IRS?

Mr. MCMORRAN. Yes; our concern is that these funds be earmarked specifically for the TCE program.

Senator ABDNOR. We will see when the bill comes over here. We have been waiting. I guess they have their problems over there, but it is something that is very urgently needed. We appreciate you taking the time to come up and speak on these issues.

Mr. MCMORRAN. Thank you very much.

AIR TRANSPORT ASSOCIATION OF AMERICA

STATEMENT OF LINDA PINEGAR, DIRECTOR, FEDERAL LEGISLATION

Senator ABDNOR. Our next witness is the Air Transport Association of America.

Ms. PINEGAR. Thank you, Senator. It is a pleasure to be with you this afternoon. I am Linda Pinegar, director, Federal Legislation, for the Air Transport Association of America which represents virtually all of the scheduled airlines of the United States. Nineteen of our member airlines provide regularly scheduled air service between the United States and more than 70 countries.

We appreciate the opportunity to appear before the subcommittee to discuss the fiscal year 1983 budget proposals for the U.S. Customs Service. Air transportation is the predominant form of transportation to and from the United States for international travelers. Air transportation also represents a very extensive, increasingly important and growing international air freight and mail distribution system. Since Customs inspection requirements directly affect this vital international commerce, and are mandatory at U.S. airports of entry, we are deeply interested in the impact of budget considerations relating to Customs staffing and procedures.

In August 1981, an important first step was taken. The GAO one-stop facilitation concept, designated ASIST, accelerated specialized inspection system test, was implemented at Los Angeles and Miami International Airports. ASIST uses cross-designated Customs and Immigration inspectors to screen arriving passengers to insure that they meet all Federal entry requirements. Passengers are screened prior to claiming their checked baggage, but can be referred to secondary inspection for a more thorough examination of all luggage if the primary inspector deems it necessary.

Preliminary reports to the Congress indicate a positive response to the program. It has been shown that passengers like the system, and the program has the potential to accelerate the inspection process by 20 percent. For this reason, we strongly endorse the ASIST program and urge this committee to support the continuation of the ASIST program and to direct its expansion to nine additional U.S. airports of entry which not only desire to begin the procedure, but have the financial resources to do so. It is imperative that immediate steps be taken to allow our airports to proceed with the implementation of ASIST before the tourist season again reaches its peak during the summer months.

Despite the initial progress achieved in the development of a more selective, expeditious passenger inspection system, comparable progress has not been achieved in the inspection of international air freight. For this reason, we would urge the committee to explore improved sessions of cargo processing, as outlined in our full statement.

Budget actions over the past several years have had the effect of reducing the number of available Customs inspectors at our international airports. These delays, for the most part, are the result of inadequate Customs staffing and the unnecessarily complex inspection procedure.

The House Ways and Means Committee has reported an authorization bill of $568.8 million for the Customs Service—an amount which will insure that current staffing and operating levels will be maintained. ATA supports the committee's recommendations and would encourage this committee to provide the necessary funding to meet those goals.

In addition to maintaining the current staffing levels, we would again urge the committee to consider the following recommendations as a means to improve the management of both the financial and manpower resources of the Customs Service:

One, extension of the accelerated specialized inspection system, ASIST, to airports of entry on a nationwide basis.

Two, extension of preclearance—the inspection of air passengers prior to departure in the foreign country rather than on arrival in the United States—to more locations abroad.

Three, the undertaking on a priority basis an exploration of, and reaching a decision on, ways to consolidate the functions of the several inspection agencies—Customs, Immigration, and Agriculture.

Four, simplification of the processing of international air freight wherever possible through a Customs automated inventory control system linked to airline computers.

Five, introduction of further Customs sampling techniques for processing international air passengers and cargo.

Although these measures will not eliminate the need for Customs inspector staff resource adjustments as international traffic continues to grow, they would moderate such resource demands in the future. We believe they would also increase inspector productivity without compromising Customs requirements or the inspection process.

Not only does the question of adequacy of Customs staffing at international airports arise again this year, but new suggested methods for funding federally required inspection outside the Federal budget—that is, funding by airlines and airline passengers—are surfacing. They include the imposition of an additional international passenger fee to be used to augment inspection staffing, and the reintroduction of Customs Sunday and holiday overtime charges at excessively high rates to be assessed against the airlines and, ultimately, international air travelers and shippers. The combined cost to airlines and airline customers of these two proposals alone would be approximately $47 million in the first year. In addition, we understand that legislation will be sought to permit the Customs Service to introduce a user-fee package for recovering millions of dollars of direct and indirect Customs inspection and administrative costs. The amount of these Customs services to be recovered from so-called users is estimated to be $440 million on an annual basis. These costs, of course, would be charged to the airlines, among other users.

The effect of charges of this magnitude would be detrimental both to the airlines, now suffering unprecedented financial losses due to the current economic situation, and to airline customers, already burdened by inflation, who would be called upon ultimately to pay the increased transportation costs here and abroad resulting from the Government charges. In this connection, we should fully expect that fees and charges imposed here for these purposes would soon be duplicated or adopted by other nations where, by virtue of international treaties and agreements, they do not exist today.

We ask you to consider the financial implications to U.S. airlines that operate to over 70 foreign countries and the possible retaliatory effects on U.S. companies abroad if U.S. Customs overtime and user charges are levied against foreign-flag carriers. Finally, the pending proposals for reimbursable Sunday and holiday Customs overtime, for all practical purposes, Mr. Chairman, would officially close the United States to international air traffic 61 days each year unless airlines, in effect, agree to pay the cost of operating Government services.

These methods will, no doubt, be defended on the erroneous grounds that airlines and airline customers are beneficiaries or users of such services. However, airlines and airline passengers are not the beneficiaries of Customs inspection services. They certainly are the users, but only because they are required by Federal law to be inspected. They receive no special benefit unique to airlines or airline customers from the inspection; in fact, the inspection process itself is a distinct disadvantage in terms of loss of transportation time and convenience.

It is clear that the requirements and responsibilities of the U.S. Customs Service were established by the Congress, in the broad-national interest, for the benefit and protection of the Nation and all of its citizens. The cost of meeting such federally imposed requirements and responsibilities, therefore, should be borne by all taxpayers from the general fund. As the fiscal year 1983 budget message itself concludes:

> In cases where the general public is the recipient of the benefits of a Federal program rather than a clearly identifiable group, user fees will not be imposed.

During fiscal year 1981, Customs collected a record $9 billion, an increase of 11.7 percent over the previous fiscal year. This represents a return of more than $18 for every appropriated dollar spent in carrying out Customs requirements and responsibilities. In view of the national purposes and benefits of Customs' inspection functions, and Customs' remarkable revenue-generating record, we find it difficult to understand proposals which would shift the responsibility for the funding of Customs' functions to private parties.

In summary, we strongly urge the subcommittee to assure funding for adequate inspector personnel at our international airports, to direct the priority initiatives necessary to simplify the inspection process, and to consider carefully the implications and consequences of placing additional financial demands on the already limited resources of the airlines, particularly in light of the fact that the duties of the Customs Service are to protect the general public, and airlines and airline passengers, in no way, benefit from the inspection system.

That concludes my remarks, Mr. Chairman. I would be happy to try to answer any questions you might have at this time.

Senator ABDNOR. Fine. We thank you for your very fine statement.

How much did the airlines pay the U.S. Customs Service last year?

Ms. PINEGAR. How much did we pay the Customs Service last year, Mr. Chairman?

Senator ABDNOR. Yes.

Ms. PINEGAR. The most recent figures, $2 million in facility charges, $20 million in overtime payments, and approximately $3 million in-excess preclearance costs.

Senator ABDNOR. That is $25 million. One fee was $2 million?

Ms. PINEGAR. I believe that is correct.

Senator ABDNOR. And the rest was overtime in the airport space?

Ms. PINEGAR. Ten million dollars was for facilities charges for all the airlines combined, sir.

Senator ABDNOR. Let me ask you: With continuing budgetary constraints, and that seems to be the word around here, do you believe the restructuring of shifts or hours of duty could reduce airline expense?

Ms. PINEGAR. Yes, we do, Mr. Chairman. We feel some adjustments should be made in the Customs regular-duty time shift. If I might cite an example here in Washington, at Dulles International Airport, most international arrivals occur between 10 a.m. and 7 p.m. The regular Customs duty shift is 8 a.m. to 5 p.m. This results in a daily overtime charge against the airlines between 5 and 7 p.m., which could be avoided through better scheduling on the part of the Customs Service. Pan American, I understand, alone paid $101,000 last year alone out at Dulles due to the shift problem.

Senator ABDNOR. By a change of hours and all, a lot of that could be avoided. Is that right?

Ms. PINEGAR. We believe cooperation between the Customs Service and the airlines could help reduce the cost.

Senator ABDNOR. Do you have pretty good cooperation?

Ms. PINEGAR. I think, in general, the airlines and the Service try to cooperate as well as they can, but there are some areas in which improvement could be made.

Senator ABDNOR. You are continually communicating and talking with them, so you are trying to resolve the problem?

Ms. PINEGAR.Yes, sir, we do.

Senator ABDNOR. Since shipments of mail require costs by the Customs Service, do you believe those should be paid for by users' charges?

Ms. PINEGAR. As I stated in my formal statement, no, we do not agree with that proposal at all. If I might amplify on that point, if a user-fee concept is adopted, it would mean continuously rising costs for the airlines and their passengers without any control on our part. We would have no say-so in any increases over pay raises for Federal employees, and so forth. We feel that is somewhat unfair to impose a charge over which we would have no control. We also feel there would be no incentive for the Customs Service or any other agency seeking to use a user-fee funding mechanism. We feel they would have no incentive to achieve maximum efficiency and productivity since they are not, in effect, paying for the service.

We have further objections to the user-fee concept, because we feel it violates, as I mentioned before, the budget message itself, where it is stated that private industry or private groups would not be charged if they did not directly benefit from service. The airlines also would be saddled financially with yet another obstacle to our efforts to increase our passenger growth and to recover somewhat economically, and the user-fee concept could considerably aggravate airline layoffs that we are experiencing now and cutbacks in salaries, and so forth, for our employees so that we can simply pay Customs inspectors additional overtime charges and higher salaries, and things of that nature. We feel that is somewhat unfair. Further, it will cost the airlines hundreds of millions of dollars in the long run, and we would reiterate that neither carriers nor passengers receive any direct benefit from this service.

Senator ABDNOR. What was that that you said, that you wanted the ASIST program? Were you suggesting that it be implemented in additional areas, was it?

Ms. PINEGAR. Yes, sir. I have a list here of the airports, if you would like to know those that are willing to proceed with the program and have the financial resources to proceed at this time with it. It has been indicated to me that the following airports are prepared to go ahead: John F. Kennedy Airport in New York, Honolulu, San Francisco, Chicago, Houston, Seattle, Tampa, Minneapolis-St. Paul, and Dallas-Fort Worth, in addition to Los Angeles just now, as you know, constructing a new facility, and I don't believe that Miami is prepared to go forth with it at this point, although they are testing the system.

Senator ABDNOR. Does Atlanta show any interest in it?

Ms. PINEGAR. Atlanta has a one-stop system, which is not the ASIST procedure per se, but it is a one-stop procedure which has worked effectively. They might be willing to modify their procedure to go to the full ASIST program. I cannot state categorically that they are prepared to do that.

PREPARED STATEMENT

Senator ABDNOR. Thank you very much. We appreciate your being here, Ms. Pinegar. Your entire statement will be made part of the record.

[The statement follows:]

Statement of Linda A. Pinegar

My name is Linda A. Pinegar, I am Director, Federal Legislation for the Air Transport Association of America, which represents virtually all of the scheduled airlines of the United States. Nineteen of our member airlines provide regularly scheduled air service between the United States and more than 70 countries.

We appreciate the opportunity to appear before the Subcommittee to discuss the FY 1983 budget proposals for the U.S. Customs Service. Air transportation is the predominant form of transportation to and from the United States for international travelers. Air transportation also represents a very extensive, increasingly important and growing international air frieght and mail distribution system. Since Customs inspection requirements directly affect this vital international commerce, and are mandatory at U.S. airports of entry, we are deeply interested in the impact of budget considerations relating to Customs staffing and procedures.

In August of 1981, an important first step was taken. The GAO one-stop facilitation concept, designated ASIST (Accelerated Specialized Inspection System Test) was implemented at Los Angeles and Miami International Airports. ASIST uses cross-designated Customs and Immigration inspectors to screen arriving passengers to insure that they meet all federal entry requirements. Passengers are screened prior to claiming their checked baggage, but can be referred to secondary inspection for a more thorough examination of all luggage if the primary inspector deems it necessary.

Preliminary reports to the Congress indicate a positive response to the program. The Customs News Digest, published by the Public Affairs Department, U.S. Customs Service, reported on December 21, 1981, that "Results to date show the (ASIST) system facilitates inspection without compromising law enforcement." Despite some initial problems in the early stages of implementation. It has been shown that passengers like the system and the program has the potential to accelerate the inspection process by 20 percent. For this reason, we strongly endorse the ASIST program and urge this Committee to support the continuation of the ASIST program and to direct its expansion to nine additional U.S. airports of entry which not only desire to begin the procedure, but have the financial resources to do so. It is imperative that immediate steps be taken to allow our airports to proceed with the implementation of ASIST before the tourist season again reaches its peak during the summer months.

Despite the initial progress achieved in the development of a more selective, expeditious passenger inspection system comparable progress has not been achieved in the inspection of international air freight. The inspection process for air cargo could be expedited by expanding the cargo inspectors' tours of duty, for example. A program should be developed by the U.S. Customs Service to review all current air cargo documentation requirements. Additional facilitation could be achieved by increasing the informal entry valuation limitation, which would also reduce documentation requirements. The Customs Service has been slow to press for these improvements and we would encourage the Committee to urge their adoption.

Budget actions over the past several years have had the effect of reducing the number of available Customs inspectors at our international airports. They have adversely affected the time required for, and private sector costs associated with, the federally imposed inspection of passengers and cargo at preclearance points abroad and at U.S. airports of entry, notwithstanding the importance of efficient and productive U.S. international air commerce to the national economy.

In 1980, visitors from abroad contributed $12 billion to the economy of the United States, and produced $1.4 billion in federal, state, and local taxes. A comparable level of expenditures and tax receipts was attained, we believe, in 1981. Yet we fail to recognize the importance of this contribution to our national economy, and continue to discourage and inconvenience international visitors and shippers with long lines and extensive delays during the Customs process. These delays, for the most part, are the result of inadequate Customs staffing and the unnecessarily complex inspection procedure.

The House Ways and Means Committee has reported an authorization bill of $568.8 million for the Customs Service -- an amount which will insure that current staffing and operating levels will be maintained. ATA supports the Committee's recommendations and would encourage this Committee to provide the necessary funding to meet those goals.

In addition to maintaining the current staffing levels, we would again urge the Committee to consider the following recommendations as a means to improve the management of both the financial and manpower resources of the Customs Service.

1. Extension of the Accelerated Specialized Inspection System (ASIST) to airports of entry on a nationwide basis.
2. Extension of preclearance -- the inspection of air passengers prior to departure in the foreign country rather than on arrival in the U.S. -- to more locations abroad.
3. The undertaking on a priority basis an exploration of, and reaching a decision on, ways to consolidate the functions of the several inspection agencies (Customs, Immigration, Agriculture).
4. Simplification of the processing of international air freight wherever possible through a Customs automated inventory control system linked to airline computers.
5. Introduction of further Customs sampling techniques for processing international air passengers and cargo.

Although these measures will not eliminate the need for Customs inspector staff resource adjustments as international traffic continues to grow, they would moderate such resource demands in the future. We believe they would also increase inspector productivity without compromising Customs requirements or the inspection process.

Not only does the question of adequacy of Customs staffing at international airports arise again this year, but new suggested methods for funding federally required inspection outside the federal budget -- that is, funding by airlines and airline passengers -- are surfacing. They include the imposition of an additional international passenger fee to be used to augment inspection staffing, and the re-introduction of Customs Sunday and holiday overtime charges at excessively high rates to be assessed against the airlines and, ultimately, international air travelers and shippers. The combined cost to airlines and airline customers of these two proposals alone would be approximately $47 million in the first year. In addition, we understand that legislation will be sought to permit the Customs Service to introduce a "user" fee package for recovering millions of dollars of direct and indirect Customs inspection and administrative costs. The cost of these Customs services to be recovered from "users" is estimated, we understand, to be about $440 million on an annual basis. These costs, of course, would be charged to the airlines among other "users".

The effect of charges of this magnitude would be detrimental both to the airlines, now suffering unprecedented financial losses due to the current economic situation, and to airline customers, already burdened by inflation, who would be called upon ultimately to pay the increased transportation costs here and abroad resulting from the government charges. In this connection, we should fully expect that fees and charges imposed here for these purposes would soon be duplicated or adopted by other nations where, by virtue of international treaties and agreements, they do not exist today.

We ask you to consider the financial implications to U.S. airlines that operate to over 70 foreign countries and the possible retaliatory effects on U.S. companies abroad if U.S. Customs overtime and user charges are levied against foreign flag carriers. Finally, the pending proposals for reimbursable Sunday and holiday Customs overtime, for all practical purposes, Mr. Chairman, would officially "close" the United States to international air traffic

61 days each year unless airlines, in effect, agree to pay the cost of operating government services.

These methods will no doubt be defended on the erroneous grounds that airlines and airline customers are "beneficiaries" or "users" of such services. However, airlines and airline passengers are not the "beneficiaries" of Customs inspection services. They certainly are the "users", but only because they are required by federal law to be inspected. They receive no special benefit unique to airlines or airline customers from the inspection -- in fact, the inspection process itself is a distinct disadvantage in terms of loss of transportation time and convenience. What frequently is overlooked is that the federal laws requiring the inspection were enacted to protect the nation and all of its citizens -- by preventing the entry of undesirable products and animal and plant disease, by enforcing tariffs designed to protect American labor and business from destructive foreign competition and discrimination, and by collecting duties on imported merchandise.

As stated in Customs' Annual Report for 1981, the mission of the Customs Service has been extended over the years by assisting in the administration and enforcement of some 400 provisions of law on behalf of more than 40 government agencies. The report states:

> "Today, in addition to enforcing the Tariff Act of 1930 and other customs statutes, the Customs Service enforces reporting requirements of the Bank Secrecy Act; collects international trade statistics; cooperates with other Federal agencies and foreign governments in suppressing the traffic in illegal narcotics; and, enforces a wide range of requirements to protect the public, such as auto safety and emission control standards, radiation and radioactive material standards, conterfeit monetary instruments, flammable fabric restrictions, animal and plant quarantine requirements, and food, drug and hazardous substance prohibitions."

It is clear that the requirements and responsibilities of the U.S. Customs Service were established by the Congress in the broad national interest, for the benefit and protection of the nation and all of its citizens. The cost of meeting such federally imposed requirements and responsibilities, therefore, should be borne by all taxpayers from the general fund. As the FY 1983 budget message itself concludes:

> " In cases where the general public is the recipient of the benefits of a Federal program rather than a clearly identifiable group, user fees will not be imposed."

During fiscal year 1981, Customs collected a record $9 billion, an increase of 11.7 percent over the previous fiscal year. This represents a return of more than $18 for every appropriated dollar spent in carrying out Customs requirements and responsibilities. In view of the national purposes and benefits of Customs' inspection functions, and Customs' remarkable revenue generating record, we find it difficult to understand proposals which would shift the responsibility for the funding of Customs functions to private parties.

In summary, we strongly urge the Subcommittee to assure funding for adequate inspector personnel at our international airports, to direct the priority initiatives necessary to simplify the inspection process, and to consider carefully the implications and consequences of placing additional financial demands on the already limited resources of the airlines, particularly in light of the fact that the duties of the Customs Service are to protect the general public and airlines and airline passengers in no way benefit from the inspection system.

NATIONAL ASSOCIATION OF PUBLIC TELEVISION STATIONS

STATEMENT OF BRUCE CHRISTENSEN, PRESIDENT, WASHINGTON, D.C.

ACCOMPANIED BY NINA B. LINK, VICE PRESIDENT/PUBLISHER, CHILDREN'S TELEVISION WORKSHOP, NEW YORK, N.Y.

Senator ABDNOR. The National Association of Public Television, with respect to the U.S. Postal Service.

Mr. CHRISTENSEN. With me is Nina Link from the Children's Television Workshop. She will be the next witness you have on your list.

I am the president of the National Association of Public Television Stations, and America's nonprofit, noncommercial local public television stations use the mails for many essential services, and heavily depend on second-, third-, and fourth-class, nonprofit rates. Increases in these rates, estimated at $1.6 million for public television stations this year, could cause significant cutbacks in public television services.

At the same time, the Government is telling us, public television, to help ourselves, it is threatening to make prohibitive the tools to do so, such as reasonable postal rates for public, noncommercial purposes. For this reason, we urge that these rates be restored to their 1981 level.

Public television depends on nonprofit postal rates for these essential services: Stations use third-class mail to solicit individual viewer contributions. Stations use second-class mail to send program guides with detailed, timely information about upcoming programs. Stations send and receive video tapes, films and publications related to their public and educational television programs, using the fourth-class library rate. For the 11 stations in the South Dakota network, copies of the material they mail out to the public include the program guide and also the viewer-solicitation material that goes out once they have had their fundraising drives and then send the pledge forms out for the people to respond to.

Last year, the postage for these services came to about $10,000 in South Dakota.

Third-class information mailing costs $2,700. To do that same mailing this year following the big January rate increases which already are in effect, or went into effect in January, the cost in South Dakota is $7,000 more this year than it was last. The proposed increases later this year, which we understand may come into effect in October, could cost another $7,000, or add another $7,000 to this year's postage costs. These mailings are absolutely essential in a vital part of the South Dakota's network private-sector funding, which last year brought in $375,000 to help support the State's educational television and radio programs. This funding joins State and Corporation for Public Broadcasting funds to make possible the State's award-winning television and radio programs. Adding this postage means a decrease in services at a time when we are trying to maintain services to more South Dakota homes and schools. Due to State funding cuts, the network has already had to drop five jobs, and buy fewer school programs to deliver to their in-school audience. This also comes at a time when the network has been trying to increase its outreach. The cuts in programing invariably lead to fewer contributions.

It may seem that the $7,000, which we are talking about in additional costs since the first of January, is not a significant amount of money, but in South Dakota, it is the cost of approximately what the network spends for the program "Over Easy," which is designed to reach elderly audiences. It is about the cost of the daily program series "Sesame Street," and it is as much as the network's annual costs for "Great Performances" and "Wall Street Week." We don't want to cut any of these programs or any of the fine local programs produced in South Dakota, but the cuts will have to be made if increased postal rates cannot be reduced.

The plight of South Dakota is duplicated in the remaining 49 States. This is why public television urges the committee to restore funds for the nonprofit mail support to the fiscal year 1981 level of $790 million.

Thank you very much.

STATEMENT OF NINA LINK

Senator ABDNOR. Thank you very much.

Go ahead, Mrs. Link, and then I may have a few questions.

Ms. LINK. My name is Nina Link of the Children's Television Workshop, a nonprofit organization located in New York City. I am here to testify in opposition to any further cuts in revenue foregone for nonprofit mail services.

I am vice president and publisher of the periodicals division, which creates and distributes magazines in conjunction with each of the children's television programs produced by the workshop: "Sesame Street," "The Electric Company," and "3-2-1 Contact."

We began publishing magazines for each of these nationwide programs to extend and reinforce the curriculum goals, to encourage reading, and to present interactive materials which allow a child to proceed at his or her own pace. The four essentially monthly magazines, Sesame Street, The Electric Company, 3-2-1 Contact and The Sesame Street Parents' Newsletter, are designed with the same care and research as our TV programs. I believe I passed out copies of the magazines to the committee.

Sesame Street magazine is for children aged 2 to 6 and provides prereading, premath, prescience, socialization and affective curriculum to help children prepare for school and begin to explore the world around them. The Electric Company magazine reaches children from 6 to 11 and provides stories, puzzles, games and poems to motivate children to read and to reinforce many of the skills they are learning at school.

3-2-1 Contact magazine was created for children aged 8 to 14 to expose them to the exciting world of science, prepare them for the ever-changing world around them and to involve them in activities which teach and reinforce science principles appropriate to their age.

The Sesame Street Parents' newsletter is aimed at parents who have children aged 2 to 8. It was created to bring timely and useful information about parenting on topics such as language development, nutrition, health, schools, creativity and child-parent communication.

Sesame Street magazine currently has over 825,000 subscribers monthly. The Electric Company and 3-2-1 Contact reach approximately 300,000 subscribers each with every issue. The Sesame Street Parents' newsletter has a circulation of about 30,000. Over 1,450,000 children receive each issue of our magazines each month through the mail, and with a pass-along factor more than 3½ million children are exposed to our educational publications every month. From the comments we receive in the mail from our subscribers, we believe we are performing a very important service in the areas of prereading, reading, science and parenting.

As is our policy with our TV programs, our magazines have no advertising. Our primary source of revenue, therefore, is from subscriptions. The magazines receive no Government or corporate funding. When the postage costs are raised as substantially as they have been this year, we have two choices: either consider advertising or substantially increase the price to our subscribers. We are very reluctant to undertake either of these options. Even if we were forced to explore advertising, that would mean we might have to look at the kind of advertising that might be detrimental to young children.

At the present time, our subscription rates are competitive with other children's magazines. By substantially increasing our rate to try to make up for the loss of revenue brought about by the nonprofit postal increases, we would go beyond an acceptable pricing point. The result would be a sharp decrease in the number of subscribers, less revenue and less service to our audience.

Our the past 2 years, we have steadily cut our costs, and we feel our publications are now being prepared at the lower cost feasible. Further cuts would simply reduce the educational effectiveness of the publications.

Therefore, we appeal to you—the Congress—to continue Federal funding for revenue foregone for nonprofit mailers at the highest level feasible, and certainly not to reduce it further. The facts of postage costs for CTW are these: In fiscal year 1981—July 1, 1980 through June 30, 1981—our postage costs at step 9, nonprofit second- and third-class, were $807,400. For fiscal 1982—July 1981 through June 1982—we had budgeted at step 10 a postage cost of $1,031,200. With the increase to step 16 in January 1982, the effect would have brought our costs for postage for the fiscal year up to $1,422,800, an increase of about $400,000 in that year.

We decided, after evaluating all our options, to give up second-class mail delivery of the magazines in favor of third-class delivery to keep our costs as low as possible, even if it means somewhat less timely deliveries. Therefore, our revised cost for postage in fiscal 1982 will be $1,177,400. We have just completed our fiscal 1983 budget—July 1982 through June 1983. If we had remained on the phased schedule, our postage costs at step 11 would have been $1,249,505. If we had moved to step 16, for second-class mail delivery, our cost of postage would have been $2,010,575, an increase of 60.9 percent. By moving to third-class, we are projecting that the cost of postage will be $1,715,067, a 37.3-percent increase over step 11. That is without any additional increase in October.

If we do not receive the full $500 million revenue foregone, it is possible we will have an additional $200,000 to absorb. Our publications have two major responsibilities: to provide educational publications for the public, based on the same goals as our television shows, and to attempt to contribute revenues to our children's television programs' production costs. Our TV productions have substantially foregone Federal support. Neither "Sesame Street" nor "The Electric Company" TV shows receive Federal funds any longer, although both had received such in the past. "3-2-1 Contact" programs do anticipate further matching Federal support for new program production costs. CTW wanted to become less dependent on Federal funding, and the growth of our periodicals division has been one source of helping the workshop become more independent. Over the last 3 years, we were able to contribute between $900,000 and $1,100,000 in net revenues each year to help support "Sesame Street." We are very proud of this record and of those subscribers who are able to help in this way; but, if our costs go higher and our net return to our productions are thus reduced, not only will our publications suffer, but our programs will be severely hurt as well.

Two of our existing publications are in immediate jeopardy because of increased postal costs. The Electric Company and The Sesame Street Parents' newsletter, which was only launched a year ago, are hovering so close to break even that additional postal costs would force us to consider whether we could continue publishing them. We have been hoping to develop a new children's magazine in the area of computers and technology. We feel there is a strong need now, and even more so in the future, for this kind of publication. Further postal increases may jeopardize this project.

We are aware these are difficult economic times, and no area of the budget is immune. The cuts already made in postal subsidies have set us back a long step in terms of our existing business and future growth. One more step and we may not be able to recover.

Senator ABDNOR. Thank you, Ms. Link. I am well acquainted with educational TV in South Dakota. I guess I had a part of it back in the State legislature. It has done a fine job. Imight say this is not the only group that has come before us on this problem, and we have heard from them, even in South Dakota. We have been contacted and talked to by many groups who were well aware of it. I guess it is a matter of where we end up finding the money, too; and, as we work through this budget, we will have to see where it comes out. There is talk when the supplemental comes out that there will be an amendment at that time on that one.

We hear a lot about the Burdick amendment these days. I don't know how far that will go toward correcting the problem. It is a difficult situation. I guess we are going to have to say we are aware of it, and have to see how it works out. We do thank you for coming today and presenting your case.

Ms. LINK. Thank you.

Mr. CHRISTENSEN. Thank you.

PREPARED STATEMENTS

Senator ABDNOR. We will insert both of your statements in the record.

[The statements follow:]

STATEMENT OF BRUCE CHRISTENSEN

America's non-profit, non-commercial local public TV stations use the mails for many essential services, and heavily depend on 2nd, 3rd and 4th class non-profit rates. Increases in these rates, estimated at $1.6 million for public television stations this year, could cause significant cutbacks in public television services. At the same time the government is telling us to help ourselves, it is threatening to make prohibitive the tools to do so--such as reasonable postal rates for public non-commercial purposes. For this reason we urge that these rates be restored to their 1981 level.

Public television depends on non-profit postal rates for these essential services:

- Stations use 3rd class mail to solicit individual viewer contributions.
- Stations use 2nd class mail to send program guides with detailed, timely information about upcoming programs.
- Stations send and receive video tapes, films and publications related to their public and educational television programs, using the 4th class library rate.

Public television stations have already experienced major cuts in *all* federal funding sources. Federal appropriations for the Corporation for Public Broadcasting (CPB) amount to nearly 1/4 of our total revenue this year. However, for next year, FY1983, CPB will be cut by 25%--a loss of $35 million--which will not be replaced immediately, if ever, from other private sources. Other major cuts in federal funds for public television--totalling an additional $35 million--have come in Education, Arts and Humanities, the National Science Foundation, and grants for equipment.

And, further devastating losses of federal support have been proposed by the Administration.

In each instance, we have been advised to "go to the private sector" for the replacement funds. We're trying to do that. We are experimenting--at Congress' request--with commercial advertising on public television in ten cities. Congress has encouraged us to lease our studios and sell whatever services we can.

But our most direct approach to "the private sector" is to ask our viewers--now more than one-half of all Americans--to help even more than they already are. And the means to carry out and maintain this solicitation is through the mails. Last year public television stations spent a total of over $2 million on postage to raise contributions from viewers. The postage cost increase for 1982 totals over $1.6 million. That means we must raise another $1.6 million just to stay even--money that could have been used for many quality public service television programs instead.

Here are details of our concerns:

Third Class

During FY1980, public television stations received a total of $73 million in voluntary viewer support. About 40 million solicitations and follow-up materials were mailed at 3rd class non-profit rates to reach this level. Last year, at an average rate of 3 cents each, the cost was about $1,200,000. In January 1982, the rate jumped 2.1 cents each, an increase of $850,000 nationwide.

Public television is indeed public--freely available to all viewers. Public television has no admission fees, tuition costs, bills, or any other form of mandatory direct payment for services received. But many stations depend on voluntary contributions for the funds necessary to continue to operate.

Stations appeal to citizens in their own TV coverage areas--about a 50-mile radius--by means of auctions, membership drives, or simply requests for cash contributions. Stations must then use the mail to secure contributions promised by telephone during these on-air TV appeals for funds.

And they use direct mail solicitation, too. Sixteen percent of all the new subscribers to public television in FY1980 contributed in response to direct mail solicitations. Assuming these contributions can be equated with the national average contribution during that period of $34.39 per subscriber, the total earned from direct mail solicitations was about $2.7 million--about the same amount of money that 260 public television stations pooled that year to purchase the season's 130 hours of Sesame Street.

The amount of income earned in larger markets, where direct mail is most cost-effective, is particularly significant. In New York City, WNET secured 40% of its new subscribers through direct mail; in Los Angeles 34% of the new KCET members responded to direct mail; and in Madison, Wisconsin, the figure for WHA was 21%.

But the cost of direct mail solicitation has already increased nearly two-fold. For example, at KCET in Los Angeles, about 750,000 solicitations for pledges, renewals and new subscribers will be mailed during the first six months of this year at the new third class rate. The postage increase for this mailing alone exceeds $15,000--about half of KCET's cost for a whole season of Great Performances programs. For KQED in San Francisco, a recent third class solicitation to 197,000 potential subscribers cost $8,485--108% more than the same mailing would have cost before the January increases. The cost increase of $4,500 is about the same amount that station pays for 3-2-1 Contact, the only science program on television today for children. And the cost of that particular program is artificially low because stations are not paying for a new production, but rather the fourth year of repeated use of the program.

Although some of our stations (e.g. Los Angeles, Chicago, Washington, and

New York) would be considered large-volume users--over 2 million pieces per year. most of the public television stations must use direct mail more selectively because their revenues and budgets are smaller. The dramatic increases in postal rates this past year have caused major problems for these stations. Postal rate increases cannot "pay for themselves" with more mailings in most non-metropolitan areas. Since public television stations do not mail outside their own local coverage areas, a cost increase is usually simply a reduction in funds available for other necessary activities.

Second Class

Public television stations send out a total of about 1-1/2 million copies of their local newsletters and program guides each month. At an average postal rate of about 4.6 cents each, the total 1981 mailing cost was about $830,000. In January 1982, with a rate almost twice as high. these mailings will cost about $1,550,000, an increase of about $720,000.

For example, KQED's (San Francisco) 2nd class rates to mail its monthly Focus program guide to 145,000 subscribers increased 93% in January, the second $4,500 postal rate increase this year.

For the Dial program guide, the program guide now collectively used in 12 markets--from New York, Washington, D.C. to Detroit, Chicago, Salt Lake City, Seattle, and Los Angeles--a 98% increase means a postal rate increase of $50,000 because the subscribers total just over one million.

For a small but growing station--like KTEH in San Jose, California--the rate increase is particularly burdensome. One year ago, that station sent its program guide Preview 54 to 3,000 subscribers; the monthly mailing cost was $114. Through aggressive outreach to its community, KTEH increased its number of voluntary subscribers to 7,000--more than 100%--in one year. Its postal costs, just for the viewing guide, increased to $530 a month--an increase of more than 400% during one year. Thus the total increase in postal costs was more than that station will pay to purchase Wall Street Week for next year or more than they will pay for two children's programs: 3-2-1 Contact and Electric Company--for an entire year.

Continually rising postal rates threaten the viability of our public audiences, thus, public support efforts. They postpone the goal of self-sufficiency for viewer guides and station program magazines which are crucial to expanding and maintaining our voluntary viewer support. In addition, they are the primary means of fulfilling the mandate of the Public Broadcasting Act, which, since first enacted by the Congress in 1967, has charged us with developing public awareness of and disseminating information about public telecommunications services.

The increase in second class rates has caused a number of public television stations to consider using third class mail for their monthly program information. Mailing third class can be highly uncertain in delivery schedule. Thus the station must choose between a less expensive 3rd class delivery, or a more expensive but more timely 2nd class. In either case, the public is less well served than before, and the result may well show up in reduced viewing which will lead to reduced contributions.

Fourth Class

Public television stations sent about 33,000 audio and video tapes via 4th class mail in 1981; at an average of $1.05, the cost was $34,500. In January, the rate escalated to $1.40, an increase of about $11,500.

Over 80% of our public television licensees provide instructional K-12 programming. To facilitate teacher use, they mail a yearly schedule, teacher guide materials and ITV newsletters to K-12 teachers. Nationwide, about 400,000 teachers use ITV regularly and about 600,000 receive these mailings. So even the lesser increases in fourth class mail have a severe impact. Thus we estimate that nearly 4 million mailings a year are affected by the fourth class rate increases, adding another $450,000 cost to our total.

While more and more PTV program shippers have had to turn to private delivery systems in order to ensure timely delivery of programs on tape and film, the library rate is obviously still in considerable use. This is particularly true for school and college instructional television course material, where advance shipment is possible. But as rates increase, the stations and education institutions will have to consider other alternatives--either expanding their use of private package deliverers, or the use of satellite or other technologies to avoid shipment. But as the marginal cost of shipment increases, widespread distribution of programs with limited reimbursement may not be possible. Special educational programs used homes and schools may be dropped.

First Class

Finally, of course, our system is significantly affected by first class rate increases as well. PBS uses first class for daily mailings to station managers with program information and updates. The Latino Consortium, a collective of 95 public television stations who produce and air the Presente series about hispanic culture, can only use first class mail--to ensure that program information is received by stations on time--both for scheduling and promotion. In short, it is the only means by which reasonable business contacts can be maintained, and further increases make less affordable our cost of doing the public's business efficiently.

Conclusion

Public television stations' local postage costs increased an estimated $1.6 million in January, 1982. This increase of several thousand dollars to a single local station will limit their budgets for program information delivery, fund raising, and program shipment. Thus the net loss to the nation will be a cut in public television services--at a time when these services to schools and homes may be more necessary than ever before as other educational and cultural alternatives diminish and as other sources of revenues are cut. We urge the Congress to restore funds sufficient to maintain non-profit postage rates at the levels of 1981.

# # #

The eleven stations of the South Dakota Public Broadcasting Network--eight television and three radio--use the 2nd, 3rd, and 4th class non-profit mail rates as do most other public stations: for sending out monthly program information to viewers, for soliciting contributions, and for shipping library materials (samples attached). Last year the postage for these services came to about $18,000. Sending the program guide to their 15,600 members by 2nd class non-profit mail cost $6,300; contribution mailings sent 3rd class non-profit mail cost $8,400, and other 3rd class information mailings, $2,700. To do the same mailings this year, following the big January rate increase, will cost South Dakota $7,000 more than last year. The proposed increase later this year could add another $7,000 to this year's postage costs.

These mailings are an absolutely vital part of the South Dakota Network's private sector fund raising, which last year brought in $375,000 to help support the State's educational television and radio programming.

This funding joins State and Corporation for Public Broadcasting funds to make possible the State's award-winning television and radio programs.

Adding this new cost for postage means a reduction in services, at the very time when the Network is trying to expand services to more South Dakota homes and schools. Due to State and federal fund cuts, the Network has already had to drop five staff jobs, buy fewer programs from national and regional program networks, and buy fewer school television programs. This is also a time when the Network has been trying to expand its outreach to more contributors to make up for these other cuts. But cuts in programming invariably lead to fewer contributions.

The $7,000 increased postage cost is about what the South Dakota Network spends for a year's daily programs of "Over Easy," the series for older Americans, almost as much as a year's cost for the daily "Sesame Street" programs for pre-schoolers, and as much as the Network's annual cost of both "Great Performances" and "Wall Street Week." The South Dakota Network doesn't want to cut any of these programs--

or any of the fine local programs produced in South Dakota--such as "Conference Call", "Statewide", "Midwest Market Analysis", or the University's commencement exercises. But cuts will have to be made if the increased postage costs cannot be reduced.

STATEMENT OF NINA LINK

My name is Nina Link of the Children's Television Workshop, a nonprofit organization located in New York City. I am here to testify in opposition to any further cuts in revenue foregone for nonprofit mail services.

I am Publisher of the Periodicals Division, which creates and distributes magazines in conjunction with each of the children's television programs produced by the Workshop: Sesame Street, The Electric Company, 3-2-1 Contact. These TV programs are seen daily on 260 Public TV stations throughout the nation. Their viewership of children, parents and teachers totals over ten million different persons every week.

We began publishing magazines for each of these nation-wide programs to extend and reenforce the curriculum goals, to encourage reading, and to present interactive materials which allow a child to proceed at his or her own pace. The four essentially monthly magazines Sesame Street, The Electric Company, 3-2-1 Contact and The Sesame Street Parents' Newsletter are designed with the same care and research as our TV programs. They bring to homes and classrooms educational materials not easily available elsewhere.

Sesame Street Magazine is for children aged 2 to 6 and provides prereading, premath, prescience, socialization and affective curricula to help children prepare for school and begin to explore the world around them. The Electric Company Magazine reaches children from 6 to 11 and provides stories, puzzles, games and poems to motivate children to read and to reinforce many of the skills they are learning at school.

3-2-1 Contact Magazine was created for children aged 8 to 14 to expose them to the exciting world of science, prepare them for the ever changing world around them and to involve them in activities which teach and reinforce science principles appropriate to their age. The Sesame Street Parent's Newsletter is aimed at parents who have children aged 2 to 8. It was created to bring timely and useful information about parenting on topics such as language development, nutrition, health, schools, creativity and child-parent communication.

Sesame Street Magazine currently has over 825,000 subscribers monthly. The Electric Company and 3-2-1 Contact reach approximately 300,000 subscribers each with every issue. The Sesame Street Parents' Newsletter has a circulation of about 30,000. Over 1,450,000 children receive each issue of our magazines and with a pass-along factor more than 3-1/2 million children are exposed to our educational publications every month. From the comments we receive in the mail from our subscribers, we believe we are performing a very important service in the areas of prereading, reading, science and parenting.

As is our policy with our TV programs, our magazines have no advertising. Our primary source of revenue, therefore, is from subscriptions. The magazines receive no government or corporate funding. When the postage costs are raised as substantially as they have been this year, we have two choices: either consider advertising or substantially increase the price to our subscribers. We are very reluctant to undertake either of these options. Even if we were forced to explore advertising, we are not sure how much revenue we could add without accepting the kind of product advertising we feel strongly is detrimental to children. At the present time, our subscription rates are competitive with other children's magazines. By substantially increasing our rate to try to make up for the loss of revenue brought about by the nonprofit postal increases, we would go beyond an acceptable pricing point. The result would be a sharp decrease in the number of subscribers, less revenue and less service to our audience.

Over the past 2 years, we have steadily cut our costs and we feel our publications are now being prepared at the lowest cost feasible. Further cuts would simply reduce the educational effectiveness of the publications.

Therefore, we appeal to you -- The Congress -- to continue federal funding for "revenue foregone" for nonprofit mailers at the highest level feasible, and certainly not to reduce it further. The facts of postage costs for CTW are these: In fiscal year 1981 (July 1, 1980 through June 30, 1981) our postage costs at Step 9, nonprofit 2nd and 3rd class, were $807,400. For fiscal 1982 (July 1981 through June 1982), we had budgeted at Step 10 a postage cost of $1,031,200. With the increase to Step 16 in January 1982, the effect would have brought our costs for postage for the fiscal year up to $1,422,800, an increase of about $400,000. We decided, after evaluating all our options, to give up 2nd class mail delivery of the magazines in favor of 3rd class delivery to keep our costs as low as possible, even if it means somewhat less timely deliveries. Therefore, our revised cost for postage in fiscal 1982 will be

$1,177,400. We have just completed our fiscal 1983 budget (July 1982 through June 1983). If we had remained on the phased schedule, our postage costs at Step 11 would have been $1,249,505. If we had moved to Step 16, for 2nd class mail delivery, our cost of postage would have been $2,010,575, an increase of 60.9%. By moving to 3rd class, we are projecting that the cost of postage will be $1,715,067, a 37.3% increase over Step 11.

How will we make up for the loss of $465,562, the difference between Step 11, 2nd class, and Step 16, 3rd class? Our publications have 2 major responsibilities at Children's Television Workshop: to provide educational publications for the public based on the same curriculum goals as our TV shows, and to attempt to contribute revenue to our children's TV program production costs. Our TV productions have substantially foregone federal support. Neither Sesame Street nor Electric Company TV shows receive Federal funds any longer, although both had received such in the past. 3-2-1 Contact programs do anticipate further matching federal support for new program production costs. CTW wanted to become less dependent on federal funding and the growth of our Periodicals Division has been one source of helping the Workshop become more independent. Over the last 3 years, we were able to contribute between $900,000 and $1,100,000 in net revenues each year to help support Sesame Street. We are proud of this record and of those subscribers who are able to help in this way, but if our costs go higher, and our net return to our productions are thus reduced, not only will our publications suffer, but our programs will be severely hurt as well.

Two of our existing publications are in immediate jeopardy because of increased postal costs. The Electric Company and The Sesame Street Parents' Newsletter, which was only launched a year ago, are hovering so close to break even that additional postal costs would force us to consider whether we could continue publishing them. We have been hoping to develop a new children's magazine in the area of computers and technology. We feel there is a strong need now, and even more so in the future, for this kind of publication. Further postal increases may jeopardize this project.

We are aware these are difficult economic times and no area of the budget is immune. The cuts already made in postal subsidies have set us back a long step in terms of our existing business and future growth. One more step and we may not be able to recover.

UNION CARBIDE CORP.

STATEMENT OF JEREMIAH J. KENNEY, DIRECTOR OF FEDERAL AFFAIRS

Senator ABDNOR. Next is the Union Carbide Corp., Mr. Kenney.

Mr. KENNEY. Thank you, Mr. Chairman.

My name is Jerry Kenney, and I am director of Federal affairs for Union Carbide Corp. We appreciate this opportunity to testify because we believe the domestic tungsten mining community is being seriously damaged by the continuing market-insensitive practices of the GSA in disposing of excess tungsten from the U.S. Government stockpile. We wish to recommend some specific steps which we believe would be appropriate for the subcommittee to consider. The GSA has failed to heed this mandate and is utilizing sales policies which do not serve the interests of the Government, the taxpayer or the tungsten miners. These are a number of examples which we believe demonstrate this:

One, the GSA offers for sale each month, 1 million pounds of tungsten. In terms of market disruption, it does not matter whether this material is actually sold. No consumer need carry stocks to satisfy projected demand if he knows that the U.S. Government will remove any burden of inventory carrying costs from his balance sheet, and that large quantities of material are available at a predictable price. For perspective, note that a 1-million pound monthly offering is equivalent to 60 percent of annual U.S. consumption.

Two, the GSA offers tungsten material for sale on terms and conditions more favorable than normal commercial practice.

Three, the GSA has on occasion sold material below the recognized market price.

Four, senior GSA officials have stated that the Government should play a role in stabilizing the market. We can find no reference in any of the legislation that the Congress has delegated a market-stabilizing role to the GSA. Its role is to avoid disruption of the market, a quite different thing.

A more detailed discussion of these problems is set forth in a position paper prepared by the "Domestic Tungsten Mining Companies Ad Hoc Committee on GSA," a group representing more than 95 percent of U.S. tungsten production. I hope this paper can be made a part of the record.

Senator ABDNOR. Without objection, it will be made part of the record.

[The information follows:]

POSITION PAPER BY THE DOMESTIC TUNGSTEN MINING COMPANIES AD HOC COMMITTEE ON GSA

March 19, 1982

We, the undersigned companies, represent more than 95% of the U. S. tungsten mining capacity. We are convinced that unless the U. S. Government significantly alters the way in which disposal of tungsten from the GSA stockpile is handled, the long term viability of this strategic industry will be jeopardized. The attached paper describes the stockpile disposal problem and recommends ways in which the GSA's objective can be met, while at the same time, protecting the U. S. tungsten mines from the penalties of undue market disruption.

Union Carbide Corporation
AMAX, Inc.
Inspiration Mines, Inc.
Koppen Mining Construction Co.
National Resources Trading, Inc.
Teledyne-Wah Chang-Huntsville

RECOMMENDATIONS TO REDUCE UNFAVORABLE IMPACT OF THE GSA ON THE TUNGSTEN MARKET

I. INTRODUCTION

Tungsten is a strategic material for the U. S. and other industrialized economies. Generally speaking, there are no cost-competitive substitutes for tungsten in machine and mine tooling, oil and gas well drills, lamp filaments, electrical contacts, armament, and other critical uses. The U. S. currently supplies 30-40% of its needs from domestic mines. Imports and the GSA (starting in 1962) have supplied the balance of the tungsten used in the U. S.

In international commerce, tungsten has been a worldwide commodity since tungsten-bearing tool steel was developed in the early 1900's. World price for tungsten ore concentrates have been quoted and published since before World War I. The Metal Bulletin (LMB) quote is still the most-broadly accepted price quotation for commercial purposes.*

II. TRENDS IN PRICING

As with many world-traded mineral commodities, tungsten pricing fluctuates with classical supply-demand interactions. Prices affect exploration and mine development. Mines shut down and reopen depending on price levels. The price levels and fluctuations relate to supply imbalances which are the direct result of wartime useage, major changes in world economies, and major interventions by governments into the market.

Fig. 1 shows price fluctuations and their relation to political and economic events. The enormous influence of the GSA on world tungsten production and pricing is indicated by its major stockpile purchases, disposals, and recent methods employed in stockpile sales.

Fig. 2 provides a sharper focus on recent supply/demand and pricing relationships. Total supply (including GSA sales) to western world markets crossed over and exceeded demand available to western production in the '77-'78 period. At the same time, the GSA increased the monthly quantity available for sale from 700,000 lbs. to 1,000,000 lbs. (far in excess of needs). The drop and flattening of published prices in current dollars coincides with the two GSA actions of increasing available material and selling into an over supplied market.

From 1975 to 1981, tungsten consumption increased at a rate of 2.6% per year. Supply including GSA releases increased at 4.4% per year -- from 48.5 million lbs. W in 1975 to 62.8 million lbs. W** in 1981. The supply from mine production (ex GSA) increased from 44.4 million lbs. in 1975 to 61.2 million lbs. in 1981 - equivalent to a growth of 5.5%. Over the 20 year period 1960 to 1980 the growth rate was only 2% per year.

---

* Freight is a relatively insignificant factor in tungsten trade, hence it is possible to have a world market price even though producers and consumers are widely separated geographically.

** Had it not been for a strike at Canada Tungsten's mine in the northern part of Canada, production would have been 65.8 MM lbs.

In 1982, supply without any GSA releases is expected to be 65.4 million lbs. W while consumption is projected at 65.5 million lbs. W. Thus the market can absorb no GSA releases without upsetting the supply-demand balance. Historically, GSA releases from 1975 to 1981 ranged from 1.6 to 5.7 million lbs. annually. It is thus highly likely that GSA will disrupt the supply-demand balance in 1982 unless a major change in stockpile disposal policies occurs.

Using the historical consumption trend and assuming that East European requirements continue at current levels -- and only already announced new production is implemented*** - the supply surplus will increase even without GSA releases. This projection, shown in Fig. 3, indicates a cumulative surplus supply of about 30 million lbs. W excluding GSA in the 9 years from 1982 to 1990. Extrapolation of this historical consumption trend is consistent with the 2% per year growth rate assumed by Roskill Information Service, London, in their recent tungsten market forecast. (Reference American Metal Market, January 27, 1982).

Thus, any GSA awards will only add to market surplus supply and tend to depress the free market. It is well known that tungsten consumption does not change with price and only responds to need for the unique properties of the element and its derivatives. On the other hand, supply varies with price but responds only slowly due to the time required to open or expand a mine and reluctance to shut down an operation once the capital investment is made. Further, in some producing countries production is pressed for employment or foreign exchange goals rather than the classic-free market profit motive.

III. MARKET DISRUPTION CAUSED BY GSA SALES PRACTICES

The GSA is disrupting the tungsten market contrary to specific legislative mandates. The Strategic and Critical Material Stockpiling Act of 1979 provides procedures and standards under which the U.S. may dispose of surplus materials. The Act specifically states that, unless Congress is given 30 days advance notice of infeasibility:

- "Undue disruption of the usual markets" must be avoided.
- Sales must "protect the United States against avoidable loss."
- "Competitive procedures shall be used."
- "Disposal of such materials must be for domestic consumption."
- Sales must advance the express statutory purpose "to encourage the conservation and development of such materials within the United States."

Based on current GSA disposal practices for surplus tungsten ores and concentrates, the legislative mandate to avoid "undue disruption of the usual markets" is being violated. The following items clearly support this contention.

1) In August 1981 the GSA accepted a bid for tungsten concentrates that was $2.21/STU below the low point of the London Metal Bulletin market quotation. In the ensuing four months the market declined $21.00/STU from its level on the date of the GSA award.

2) The GSA offers 1,000,000 lbs. of tungsten concentrates every month. Although this quantity is never sold, its availability depresses the market.

3) The GSA dropped duty from domestic awards, setting itself up in direct competition with Third World Countries who had been granted tariff advantage under the Generalized System of Procedures (GSP).

4) The GSA gives substantially more favorable terms than those normally available in commerce. This gives the GSA an edge in the marketplace.

5) The assumed availability of GSA material allows consumers to let the U.S. Government carry their inventory. Consumers do not have to adjust inventories in anticipation of changes in the business cycle since material is readily available from the GSA. This is particularly disruptive in the current high-interest-rate climate. For example, a consumer buying from the GSA can take delivery in 90 days paying only 10% down while in normal commerce he would have to pay 90% down. At current interest rates, these terms give the GSA an

---

*** The only "new" production facilities assumed are:

Billiton - Mt. Pleasant in Canada - 1983

General Electric - Springer Mine in Nevada - mid 1982

AMAX - Mactung in Canada - 1985

advantage of about 4% -- considerably more than the margin enjoyed by most metal traders.

Other provisions of the Stockpiling Act are also being circumscribed by the GSA.

IV. CHRONOLOGY AND IMPACT OF RECENT GSA SALES PRACTICES

Although the current tungsten stockpile disposal practices are seriously flawed, U.S. tungsten producers believe that the goals of the Stockpiling Act and the Administration's minerals policy can be realized if the GSA follows sound business practices to maximize its revenues from stockpile sales. There will be times, however, when the overriding national interest may require the GSA to exercise special restraint, including even temporary withdrawal from a soft market. This restraint is needed to assure that GSA surplus quantities amassed with public funds do not unduly depress prices for domestic producers.

A review of recent transactions shows that the GSA's tungsten sales have not maximized revenues and are jeopardizing the longer term viability of the U.S. tungsten producing industry. In 1970, GSA was authorized to dispose of 100 million lbs. of tungsten. However, after minor amounts were sold, the world market surplus (caused mainly by GSA's tungsten tenders during 1969-1970) depressed prices below GSA's "shelf price." As a result, no tungsten was sold by the GSA for two years.

Presumably during this two year period the GSA held its shelf price well above the world market price -- de facto recognition that they had previously flooded the market.

In late 1973 a new sales program based on sealed competitive bidding was introduced at a time when mine production was significantly below consumption. Until 1977, prices trended upward, encouraging worldwide production to expand significantly while moderate GSA sales supplied production shortfall. By 1978, however, production plus GSA sales exceeded consumption. Nevertheless, GSA continued its tungsten sales and real prices fell, as is shown in Fig. 4.

Rather than decreasing its offerings as the market was softening, in March 1978 -- at the suggestion of trading firms -- the GSA increased its monthly offerings of tungsten from 700,000 to 1 million lbs. of tungsten per month. To the further detriment of U.S. tungsten producers, GSA accepted low prices for scheelite concentrates even though scheelite was selling at a premium to wolframite in 1979 and 1980 world markets. Next, effective January 1, 1980, the GSA discontinued its former practice of adding a charge equivalent to import duties to the bid prices. (In effect GSA gave itself the GSP status of Less Developed Countries to the competitive disadvantage of producers in the U.S., Canada and Australia).

Beginning about November, 1980, the GSA began to regularly accept almost all bids that were even a few cents/STU above the low of the LMB quotation range. Previously, the cutoff price (or lowest bid accepted) had to be about equal to the LMB midpoint. The continuing reduction in cutoff price culminated in August 1981 with the award of concentrates at $2.21/STU below the low of the LMB quoted price range. As a result of this series of market-depressing steps, the domestic tungsten mining industry (which expanded in the 1975-1977 period of favorable conditions) is now in a substantial cost/price squeeze, with the U.S. Government being the fulcrum for levering prices downward.

Contrary to the Stockpiling Act and for reasons not clearly explained, the GSA has been making substantial sales of tungsten for foreign consumption. It has purported to limit export sales to no more than 25% of each monthly offering. Because the amount offered each month is so much larger than the amount actually sold, this 25% limit has imposed no real constraint on export sales. For example, in 1979 and 1980, over 40% of actual sales was for export. While the weakness of European economies has curtailed export sales in 1981, they undoubtedly will rebound as the economic picture improves unless GSA policies are altered.

The consequences of these persistently low prices are that:

- U.S. tungsten mines have become increasingly marginal. In fact, Union Carbide has announced a 50% staff reduction at its Nevada mine effective October 1, 1981 and announced complete shutdown in 1982.
- The economic feasibility of developing known U.S. tungsten deposits has become increasingly questionable.
- Exploration for other U.S. tungsten deposits believed to exist has become more difficult to justify.

Thus, short-term stockpile management is impairing the long-term viability of the domestic tungsten mining industry. Continuation of present practices may do irreparable injury. It should be noted that current stockpile management policy specifies three-year sourcing. Thus, for each unit that domestic capacity is reduced, there must be a three-fold increase in the stockpile. This highly leveraged situation emphasizes the need for focusing on the longer term in stockpile management.

According to defense estimates and goals set under the previous Administration, the GSA still has about 30 million lbs. of surplus tungsten. Undeniably, disposing of this amount -- which is equal to one-half of the free world's annual consumption -- poses a significant challenge. Steps can be taken, however, to improve both the government's ultimate return on its tungsten sales and to enhance production incentives for domestic tungsten producers. These are documented in the following section.

V. SPECIFIC RECOMMENDATIONS REGARDING TUNGSTEN STOCKPILE SALES

a. GSA should halt all sales for one year

By the end of 1981 the LMB price quotation had fallen to $114.28/STU (Dec. average) -- the lowest level since mid-1976. For the GSA to continue to sell into such a depressed market will cause severe injury to domestic producers already faced with mine closings. Thus, sales should be halted for the balance of 1982. This action by the GSA is not without precedent. For example, tin sales from the stockpile have been discontinued on several occasions.

b. Competitive pressures should be increased by altering the timing and quantities of tungsten offered.

Because the GSA offers far more tungsten each month than it can sell, buyers do not have to bid competitively against each other. They need only bid above GSA's minimum price, which has recently been near the low end of LMB price quotes published immediately preceding each GSA auction. Also, because the offerings are as regular as clockwork, buyers have no incentive to offer higher prices to lock in a supply. Instead, buyers can easily attempt to drive prices lower by bidding at the low end of the LMB range, knowing that if a bid is rejected it can be renewed at a slightly higher price two weeks later. In short, the GSA guarantees buyers that unless demand increases markedly, tungsten supplies at current low prices easily exceed demand. Thus, GSA's sales act as an anchor on the entire world market. The anchor is significant. For example, in 1979 GSA sales accounted for over 9% of total free-world tungsten consumption.

To correct this situation, the GSA should cease all tungsten sales for one year. Once prices begin to rise, the GSA should occasionally offer amounts slightly *less* than it expects to sell. This will force buyers to *compete* against each other, rather than simply bidding against the LMB minimum. Also, the bidding will be more intense since buyers will have no assurance as to when another GSA offering will be made. Increasing the *competitive* nature of its auctions will both improve the government's revenues and provide price relief to the domestic tungsten industry.

Eliminating the artificial depression in tungsten prices should not conflict with reducing inflation because tungsten has a negligible effect on the cost of finished goods. Tungsten accounts for about $5 in the price of a $10,000 automobile and much less than 0.1 cent in the price of a light bulb. In gross national terms the *total* U.S. cost of all the tungsten consumed in a year is only about $160 million or *0.006 percent* of the GNP. In short, while a healthy domestic supply of tungsten is critical to our national economy, modest tungsten price increases are not significant. Moreover, the Stockpiling Act expressly forbids the use of the stockpile to implement general economic policies.

c. Product should never be priced below published market prices.

The GSA's recent sale at a price below the low of the LMB range will be taken by the Tungsten Community as a signal that the GSA has modified its position regarding the use of the LMB range as a guideline in settling bid cutoffs. This action will drive the market to still lower prices.

d. A duty add-on should be reimposed to focus GSA's competition on foreign, often state-subsidized, suppliers.

GSA should resume its practice (followed until January 1, 1980) of adding a charge to bids for domestic consumption that is equal to the current duty for tungsten imports. First, the duty add-on is a source of additional revenue that should be tapped by the GSA. Second, it provides a more accurate measure of U.S. market price since the foreign sales would be subject to U.S. duty if the goods were imported here from other than GSP countries. Third, it provides the intended benefits to U.S. suppliers, who must compete with foreign sources that often are government-subsidized and operate with lower standards for worker compensation and safety. Finally, it places the GSA in competition with foreign sources seeking to export to the U.S., rather than against U.S. producers selling in the U.S. market.

e. GSA should adopt standard industry terms of sale to discourage use of its auctions as a speculative hedge.

Standard tungsten terms of sale call for 80 to 90% payment upon delivery of shipping documents. In contrast, GSA requires only 10% down with settlement postponed for up to 90 days. These more liberal terms encourage buyers to use the GSA auctions as a speculative hedge and place U.S. suppliers, which have major current expenses to meet, at a marked disadvantage. Also, they deny the government the benefits of a quicker payout.

f. Annual sales should be limited.

The GSA offerings should be held to no more than 10% of previous year's consumption based on U.S. Bureau of Mines statistics. This would set a quantitative limit to replace the vague "market disruption" wording of the Stockpiling Act.

FIGURE 1
TUNGSTEN PRICE HISTORY (EX DUTY)

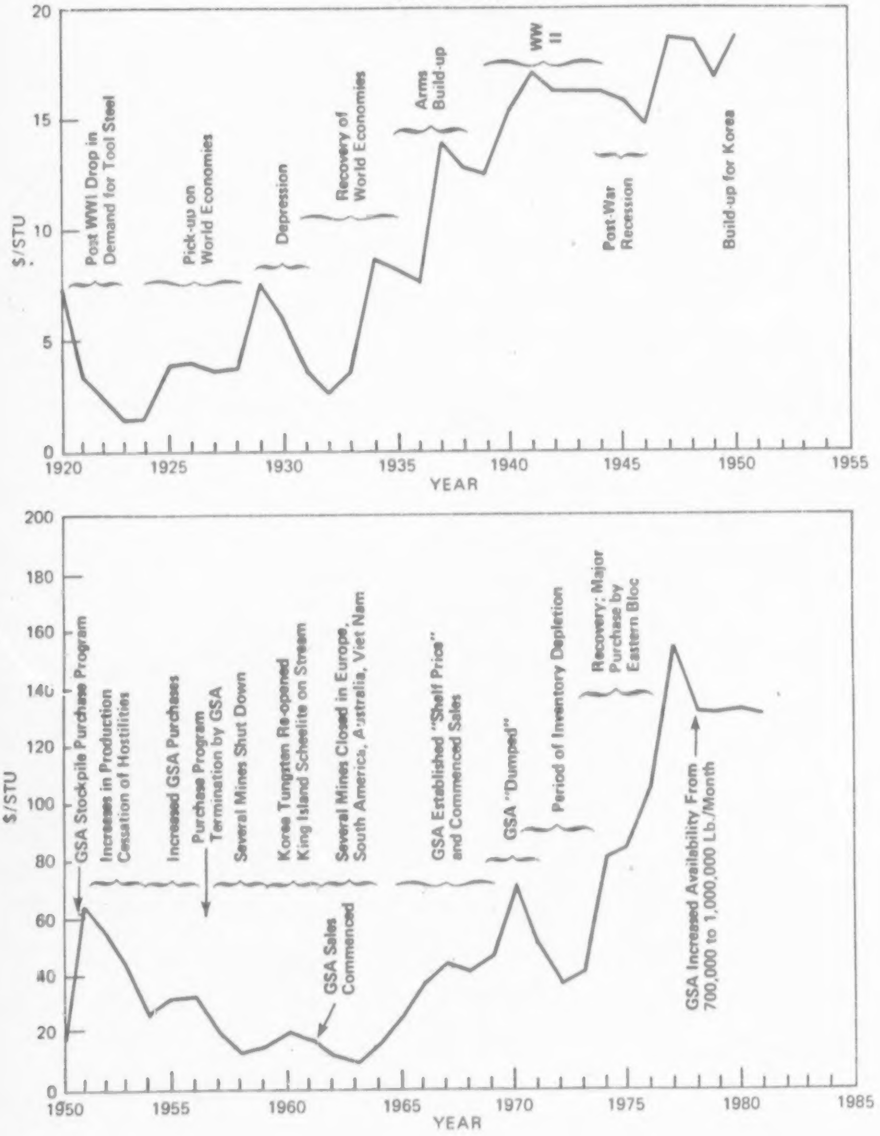


FIGURE 2

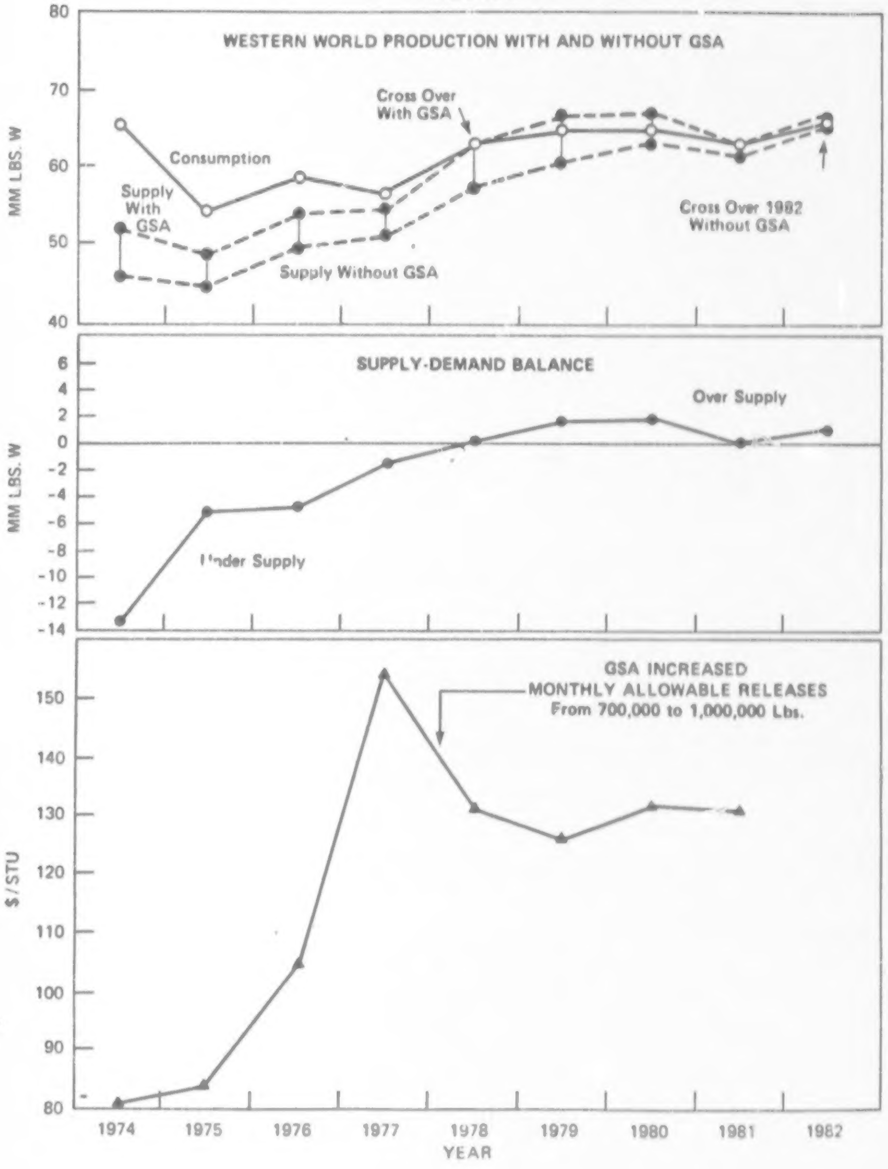

WESTERN WORLD PRODUCTION WITH AND WITHOUT GSA
MM LBS. W
80
70
60
50
40
Consumption
Supply With GSA
Supply Without GSA
Cross Over With GSA
Cross Over 1982 Without GSA
SUPPLY-DEMAND BALANCE
MM LBS. W
6
4
2
0
-2
-4
-6
-8
-10
-12
-14
Over Supply
Under Supply
$/STU
150
140
130
120
110
100
90
80
GSA INCREASED MONTHLY ALLOWABLE RELEASES From 700,000 to 1,000,000 Lbs.
1974
1975
1976
1977
1978
1979
1980
1981
1982
YEAR

FIGURE 3
TUNGSTEN CONCENTRATE PROJECTED SUPPLY-DEMAND
WITH NO GSA RELEASES

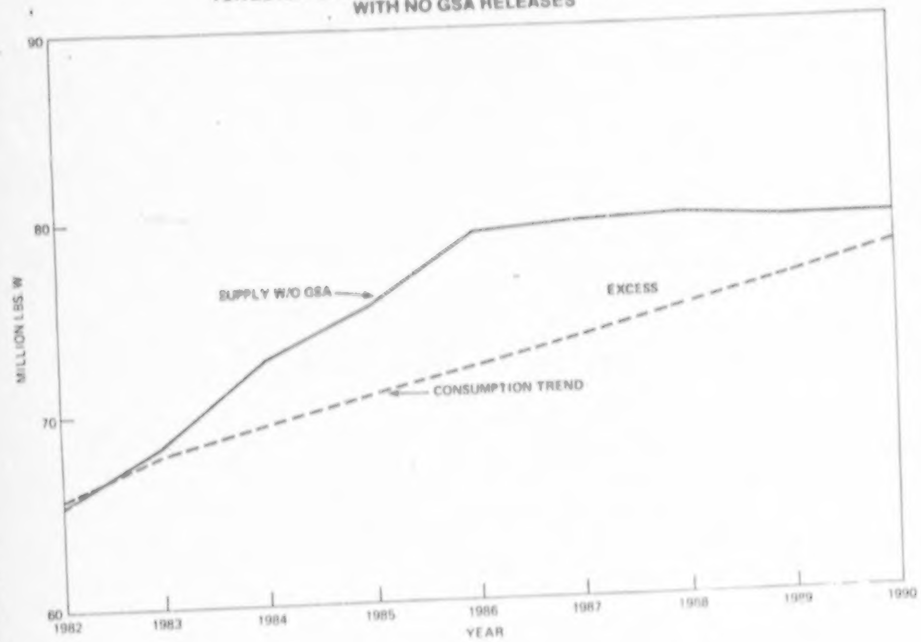
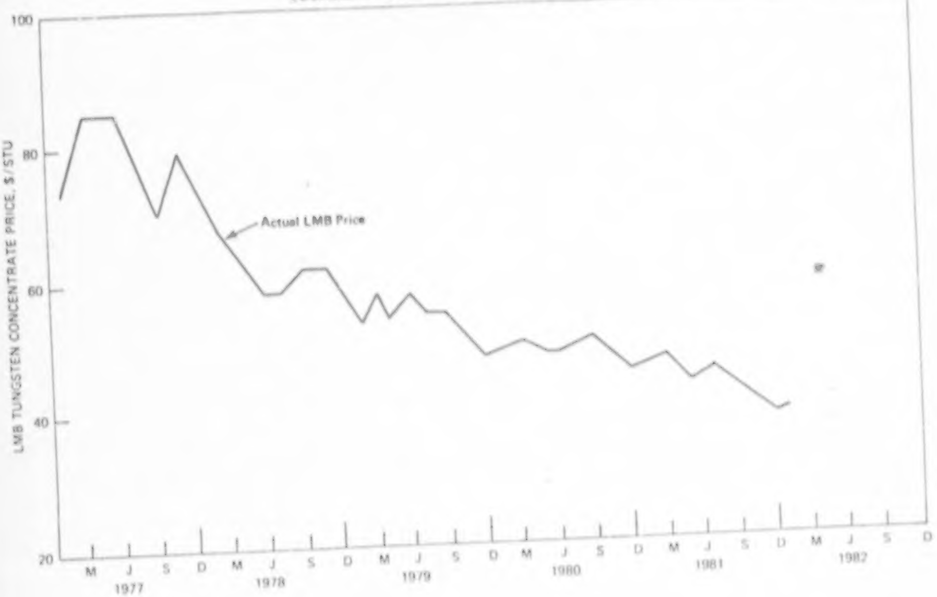


FIGURE 4
LONDON METAL BULLETIN
TUNGSTEN PRICE HISTORY
(Constant Dollars/STU Tungsten Concentrate)



Mr. KENNEY. Thank you, Mr. Chairman.

The disposal activities of the GSA are of special concern to the U.S. tungsten producers now because of the severely depressed state of the market. Tungsten ore prices "have broken through the floor envisioned by the most ardent pessimists and continue to crash to new depths . . .," according to the trade paper Metals Week. U.S. producers have almost uniformly curtailed production sharply or suspended operations altogether. In our case, Union Carbide has indefinitely closed its mine at Tempiute, Nev., and has shut down its tungsten mill at Bishop, Calif., for 3 months.

GSA disposal practices are not the sole cause of the depressed market. The marketing practices of the People's Republic of China, a major tungsten producer, and the current recession, are also significant causes. Nevertheless, we are convinced that GSA practices are a major contributor to the problem. GSA's continual offering of large quantities of tungsten will clearly delay any recovery and significantly postpone the time when domestic production and employment will resume. Furthermore, by selling at the current low price, GSA is shortchanging itself, and the stockpile transaction fund, of the greater revenues which would be realized with prices recovered.

Given these problems, we recommend the following actions:

One, the GSA cease all tungsten sales for 1 year.

Two, upon resumption of sales, monthly offerings be limited to 10 percent of the average monthly consumption for the preceding 12 months.

Three, the GSA offer material on termsand conditions consistent with normal commercial practice.

Four, the GSA never sell below the established market price defined here as the mid-point of the quoted metal bulletin range, which is the established price guide in the industry.

We recognize that the disposal policies of GSA are set primarily by the authorizing legislation and the authorizing committees. However, the possibilities of a suitable legislative solution, which would provide timely relief, areremote, given the crowded legislative calendars and the press of business before those committees.

We are also aware of the reluctance of this committee to impose limits on the appropriations it recommends. But we see no other effective recourse available to us or to the industry than to request this committee to recommend some limitations on the GSA appropriations which would substantially accomplish the recommendetions of the industry—and benefit the Treasury, as well.

PREPARED STATEMENT

I would be glad to respond to any questions.

Senator ABDNOR. Your statement will be placed in the record.

[The statement follows:]

STATEMENT OF JEREMIAH J. KENNEY

Mr. Chairman, members of the committee, my name is Jeremiah J. Kenney, and I am director of Federal affairs for Union Carbide Corp. We appreciate this opportunity to testify because we believe the domestic tungsten mining community is being seriously damaged by the continuing market-insensitive practices of the GSA in disposing of excess tungsten from the U.S. Government stockpile. We wish to recommend some specific steps which we believe would be appropriate for the subcommittee to consider.

Although specifically directed by the Congress under the Strategic and Critical Material Stockpiling Act of 1979 to avoid undue disruption of the usual markets, the GSA has failed to heed this mandate and is utilizing sales policies which do not serve the interests of the Government, the taxpayer or the tungsten miners. These are a number of examples which we believe demonstrate this:

One, the GSA offers for sale each month, 1 million pounds of tungsten. In terms of market disruption, it does not matter whether this material is actually sold. No consumer need carry stocks to satisfy projected demand if he knows that the U.S. Government will remove any burden of inventory carrying costs from his balance sheet, and that large quantities of material are available at a predictable price. (For perspective, note that a 1-million pound monthly offering is equivalent to 60 percent of annual U.S. consumption.)

Two, the GSA offers tungsten material for sale on terms and conditions more favorable than normal commercial practice.

Three, the GSA has on occasion sold material below the recognized market price.

Four, senior GSA officials have stated that the Government should play a role in stabilizing the market. We can find no reference in any of the legislation that the Congress has delegated a market-stabilizing role to the GSA.

A more detailed discussion of these problems is set forth in a position paper prepared by the "Domestic Tungsten Mining Companies Ad Hoc Committee on GSA," a group representing more than 95 percent of U.S. tungsten production. I hope this paper can be made a part of the record.

The disposal activities of the GSA are of special concern to the U.S. tungsten producers now because of the severely depressed state of the market. Tungsten ore prices "have broken through the floor envisioned by the most ardent pessimists and continue to crash to new depths . . .," according to the trade paper Metals Week. U.S. producers have almost uniformly curtailed production sharply or suspended operations altogether. In our case, Union Carbide has indefinitely closed its mine at Tempiute, Nev., and has shut down its tungsten mill at Bishop, Calif., for 3 months.

GSA disposal practices are not the sole cause of the depressed market. The marketing practices of the People's Republic of China, a major tungsten producer, and the current recession, are also significant causes. Nevertheless, we are convinced that GSA practices are a major contributor to the problem. GSA's continual offering of large quantities of tungsten will clearly delay any recovery and significantly postpone the time when domestic production and employment will resume. Furthermore, by selling at the current low price, GSA is shortchanging itself, and the stockpile transaction fund, of the greater revenues which would be realized with prices recovered.

Given these problems, we recommend the following actions:

One, the GSA cease all tungsten sales for 1 year.

Two, upon resumption of sales, monthly offerings be limited to 10 percent of the average monthly consumption for the preceding 12 months.

Three, the GSA offer material on terms and conditions consistent with normal commercial practice.

Four, the GSA never sell below the established market price defined here as the mid-point of the quoted metal bulletin range.

We recognize that the disposal policies of GSA are set primarily by the authorizing legislation and the authorizing committees. However, the possibilities of a suitable legislative solution, which would provide timely relief, are remote, given the crowded legislative calendars and the press of business before those committees.

We are also aware of the reluctance of this committee to impose limits on the appropriations it recommends. But we see no other effective recourse available to us or to the industry than to request this committee to recommend some limitations on the GSA appropriations which would substantially accomplish the recommendetions of the industry—and benefit the Treasury, as well.

I would be glad to respond to any questions.

Mr. KENNEY. The critical limitations that we seek would be a temporary suspension of tungsten sales and a limit thereafter on the quantities for sale. We would be happy to work with your staff on language to accomplish this.

Thank you, Mr. Chairman.

Senator ABDNOR. Thank you.

The overall stockpile situation has been discussed; the subject has been discussed, and brought up by other groups. In the case of tungsten, why are they dumping it on the market?

Mr. KENNEY. They would like to get the revenue.

Senator ABDNOR. Is it because of bad purchases in the past?

Mr. KENNEY. Tungsten was over-acquired years ago and stockpile needs have changed in the meantime, and they would like to dispose of it to accrue money for the Treasury. Our feeling is that, if they disposed of it in a more judicious fashion, the taxpayers would be better off and there would be more money for the fund.

Senator ABDNOR. They are not purchasing any more?

Mr. KENNEY. No; that is correct.

Senator ABDNOR. How long ago did they cease buying?

Mr. KENNEY. I don't think they have bought tungsten since the mid-1950's. They are not buying any because there is so much excess tungsten in the stockpile.

Senator ABDNOR. So they did get rather overgenerous in purchasing of castor oil at some time, and discovered they have 22,000 pounds—I don't know whether it is tons or pounds, That is a lot.

Mr. KENNEY. Either way.

Senator ABDNOR. As I figure it out here, that is almost one-tenth pound for every American; that is a lot of castor oil.

We do bring up a real problem, and this is something we are interested in knowing more about, and we will be working with this in the days ahead:

Do you have any particular—the best solution, of course, is to quit dumping.

Mr. KENNEY. The GSA, of course, administratively can solve this problem. Unfortunately, they haven't seen fit to do so up to now, and that is why we are appealing to this subcommittee.

Senator ABDNOR. You have talked to them about this?

Mr. KENNEY. Many, many times.

Senator ABDNOR. Well, thank you very much.

Mr. KENNEY. Thank you, Mr. Chairman.

SOCIETY FOR HISTORY IN THE FEDERAL GOVERNMENT

STATEMENTS OF:

DR. WILLIAM S. DUDLEY, TREASURER, SOCIETY FOR HISTORY IN THE FEDERAL GOVERNMENT

DR. PAGE PUTNAM MILLER, PROJECT DIRECTOR, NATIONAL COORDINATING COMMITTEE, AMERICAN HISTORICAL ASSOCIATION AND ORGANIZATION OF AMERICAN HISTORIANS

CHARLENE N. BICKFORD, COALITION TO SAVE OUR DOCUMENTARY HERITAGE

PREPARED STATEMENTS

Senator ABDNOR. Dr. David Trask, and I guess Dr. Dudley will be replacing him. The Society for History in the Federal Government.

Also, Dr. Page Putnam Miller, of the American Historical Association and Organization of American Historians.

Your entire statements will be made a part of the record.

[The statements follow:]

STATEMENT OF DAVID F. TRASK, PRESIDENT, THE SOCIETY FOR HISTORY IN THE FEDERAL GOVERNMENT

My name is William S. Dudley. I am the Treasurer of the Society for History in the Federal Government, and I am here to present its views on the budget for the National Archives and Records Service. The members of the Society are historians, archivists, records managers, documentary editors, museum curators, and historic preservationists. Our membership, many of whom are employees of the federal government, share the profound concern of colleagues in the academic community, genealogists, and many other interested citizens that the National Archives may no longer be able to fulfill its statutory obligation to preserve the nation's documentary heritage. We support additional appropriations for the National Archives and Records Service, including a line item to fund the National Historical Publications and Records Commission.

I should like to advance two practical arguments for this course that reflect the working experience of the members of our Society, many of whom make constant use of the Archives.

One reason for ensuring sufficient support for the Archives is to allow agencies to continue use of essential information deposited in the Archives. Some of this use relates to requests for specific information that come from agency officials, the Congress, and the general public. Another use is to obtain information used to prepare extensive policy-related historical studies deemed useful to decisionmakers, especially planners. All study of the future rests on study of the past. Planning cannot take place without sound historical information, analysis, and judgment. In short, serious fiscal blows to the Archives deprive the federal government of access to indispensable information needed to fulfill a wide range of essential requirements, ranging from specific reference to complicated historical studies.

A second reason for preserving efficiency at the National Archives is the goal of achieving cost effectiveness. The argument advanced by those who propose reductions in support is that it will effect desirable economies. As it happens, however, even the most cursory test of this thesis demonstrates a contrary reality, If the centralized facility for preservation and use of historically valuable records cannot function efficiently, the agencies will have to take over some of the centralized function. For example, the inability of the Archives to accept records of the Department of State for the 1950s or for the Office of the Energy Advisor for the 1960s and beyond means that the originating agency must perform archival functions in addition to normal records management. The result of decentralized operations at the agency level is increased overall cost and decreased overall efficiency in preservation and use. By forcing decentralization of archival function, and this outcome is an inevitable consequence of cuts now contemplated, the people lose the benefits deriving from economies of scale through centralization.

Others more expert in such matters than the Society for History in the Federal Government recognize the truth of this judgment. Let me quote from a statement by the Comptroller General of the United States: "We believe that any actions which substantially reduce NARS records management program and staff could: reduce the level of expertise available in federal records and information management; reduce the savings which NARS staff can produce for the Government." Why, then, have cuts been proposed? The Comptroller General answers: "we suspect that insufficient weight was given to the tangible benefits resulting from this agency's activities."

Mr. Chairman, we in the Society for History in the Federal Government agree with the Comptroller General. I have confined my brief testimony to mention of certain tangible benefits that result from a well-supported archival program: provision of essential information services to agencies of the federal government; achievement of significant savings through economies of scale resulting from centralization of the most important archival functions.

Thank you very much for the opportunity to appear before you.

Statement of Dr. Page Putnam Miller

I am Page Putnam Miller, Project Director of the National Coordinating Committee, a consortium of over twenty large and small historical organizations. I am here today to speak on behalf of the approximately twenty thousand historians who are members of the American Historical Association and the Organization of American Historians, the two largest learned societies in this country devoted to the study of history.

As professional historians we are most concerned about the welfare of the National Archives and Records Service and about the preservation and accessibility of government records. Staying close to primary sources is crucial for historians. Thus we appreciate this opportunity to convey to you our distress over the Administration's Proposed FY '83 budget for NARS which we feel is most inadequate.

Mr. Chairman, there are only two points about the NARS budget proposal that I wish to make today. First, the $85 million proposed for 1983 is in fact a continuation of a program of administrative neglect that makes it impossible for NARS to fulfill its legally mandated functions. And second, the National Archives is facing new and almost insurmountable challenges today and if additional financial resources are not forthcoming the National Archives will become a relic of the past and not a viable agency engaged in meeting the demands of a new and technological age.

Regarding the first point on the condition of neglect, this neglect is not occurring in just one or two areas but instead it permeates the entire operation of the National Archives. Let me give you a few illustrations. In the area of preservation, many of the first level genealogical records which include pension and military records are rapidly deteriorating due to heavy use. There is a pressing need to microfilm all of these valuable records before they are irreparably lost. This condition of neglect has also meant that NARS has had neither space nor staff to accept material which should have been transferred from agencies to the Archives years ago. With its staff reduced by 423 in two years and the material available for processing increasing, NARS is simply falling further and further behind. Accessioning of new records has come to a screeching halt and there is every indication that NARS will not be able to comply with the 1950 Federal Records Act. Public release of the FBI's records of the J. Edgar Hoover years, the Justice Department's World War II files, the central files of the Korean War from the Pentagon and State Department were all to be available this year but instead have been delayed indefinitely. Because of this situation scholars who would otherwise have little interest in the Freedom of Information Act have been forced to use it as the only way to obtain documents that should have long since been deposited, declassified, and made available. /When original records are allowed to deteriorate without being microfilmed, when agencies can not transfer documents to the National Archives due to lack of staff and space at NARS, and when the accessioning program is paralyzed due to staff reductions, then it is clear that a program of neglect has been instituted. A budget of $107 million, that is approximately $22 million more than the proposed amount is needed to begin to reverse this situation of neglect.

My second point is that NARS is facing unprecedented challenges today and the recommended budget amount does not allow NARS to respond adequately to these new developments. The unprecedented challenges to which I am referring are the explosion in the number of documents to be handled, the enormous increase in reference requests, and the advent of the paperless desk with increasing use in government of computerized data. Let me give you a few statistics to further describe these trends. The dramatic acceleration of documents in recent years is illustrated by the fact that the bankruptcy records from all federal district courts from 1898 to 1970, a 72 year period, amount to 115,000 cubic feet. While the district bankruptcy records created since 1970 amount to 114,000 cubic feet. In the last decade we have created records that equal those of the earlier 72 year period.

In addition to this enormous increase in the number of documents, there has been a rapid acceleration in recent years in reference requests. From 1976 to 1981, the staff of NARS decreased by 1% while the reference requests increased by 80%. Part of this growing interest in our past was spurred by Alex Haley's Roots. Today nearly 80% of the users of the National Archives reading rooms are interested members of the public, seeking information on the history of their families and our national past. NARS needs additional staff to respond to this phenomenal growth in genealogical research.

Finally NARS has operated from its creation under the primary assumption that federal records meant paper records. Now NARS must make a profound adjustment to this new era of information networks. Not only does NARS need to fully computerize its own finding aids, but it needs to undertake considerable research and development in the whole field of machine readable records. A sizeable increase in the NARS appropriation is needed in order for this agency to cope with these new challenges.

I will not take the time of the committee to detail the increases, which we perceive as necessary over and above the Administration's proposed budget of $85 million, but to do the job properly we insist that an additional $22 million is necessary. With the committee's permission, I will submit attached to my written testimony a detailed breakdown of those figures which were developed by the National Coordinating Committee for the Promotion of History.

In conclusion, on behalf of the historical community, I am hopeful that this committee will see fit to appropriate adequate fund for NARS that will enable NARS to preserve the documentary heritage of our great country.

NCC FACT SHEET

ADEQUATE FUNDING FOR

THE NATIONAL ARCHIVES AND RECORDS SERVICE

NARS is currently operating under a continuing resolution budget of $75 million. The president's proposed budget for FY '83 recommends $85 million for NARS. Although this represents an increase over the continuing resolution budget, it includes several added expenditures such as the transfer of approximately $1 million in costs from the Government Printing Office for printing the Federal Register, the absorption of pay raises from the Pay Act, and increased amounts for general operating expenses. Because of these factors, the apparent $10 million increase will actually amount to only $4.7 million more than the continuing resolution budget and is in fact a $10 million reduction from the FY '81 NARS budget of $89.7 million. The proposed Reagan budget of $85 million will simply not enable the National Archives to carry out its legally mandated functions of preserving, accessioning, and servicing the records of the three branches of the federal government.

The items listed below comprise a conservative estimate of the additional funds that must be added to the proposed $85 million to enable NARS to fulfill its mandated mission. This recommendation is presented under five broad categories: preservation, services, physical plant, immediate planning needs, and the reestablishment of program and personnel losses incurred by recent budgetary cuts. No start-up time will be required for these items for all can be quickly absorbed into the on-going program of NARS. Additional increases will be needed in FY '84 to implement many of the immediate planning needs that have already been postponed far too long.

PRESERVATION

Installation of 24 hour climate control in all archival storage areas for permanent records where it is needed.	$1 million
Additional staff and supplies for preservation of deteriorating documents.	$2 million
Acceleration of microfilming which involves personnel for preparing and organizing records for filming and camera operators. There is a pressing need to put on microfilm all of the first level genealogical records which include pension and military records that are deteriorating due to heavy use by genealogists. It has been estimated that the cost of microfilming all first level genealogical records is $50 million. An accelerated program beginning with $5 million is recommended.	$5 million

SERVICES

Reinstitution of the interlibrary loan program that has recently been terminated. This program not only made records more easily available to the public but also cut down on the number of requests at the Washington office for special searches. In FY'81, 300,000 reels were loaned. Additional staff and funds for postage are needed to reinstitute the program.	$ .8 million
Establishment of a program for adequacy of documentation. Such a program is needed to promote the most complete and adequate documentation of organizations, policies, and activities of the federal government and to assure a reasonable system of retrievability.	$ .5 million

PHYSICAL PLANT

Expansion of space in Records Centers and additional shelving. Records Centers are presently unable to accept many records due to shortage of space. This means that each agency must retain its own records in attics and basements of government buildings throughout the country, often in moldering and uncatalogued fashion.	$1.8 million
Contract study on projections for a new Washington building. The 1977 projection for a much needed new building was $91 million (the present cost for such a building would be about $180 million). Recent House Oversight Hearings dealt with the necessity for a new facility in Washington.	$.15 million
Anticipated increases in SLUC.	$3 million

IMMEDIATE PLANNING NEEDS

Contract for an inventory of paper records and the development of preservation guidelines.	$ .5 million
Research and Development in Machine Readable records.	$ .25 million
Study contract on computerization of finding aids. It is presently estimated that it would take 50 people 15 years to develop finders aids in computer format for all records in the National Archives. A thorough evaluation is needed before a project of this magnitude is undertaken.	$ .25 million

REESTABLISHMENT OF PROGRAMS AND PERSONNEL REDUCED OR ELIMINATED BY RECENT CUTS

Replacement of positions lost over the last 18 months. In September 1980, NARS had 2,179 permanent employees nationwide. Presently there are 1,756 permanent employees nationwide. This represents a loss of 423 permanent employees, approximately 20% of the NARS staff. Hiring at the personnel levels of September 1980 would facilitate the reestablishment of systematic declassification of records as well as other programs that have been drastically reduced.	$2.6 million

• Reestablishment of the National Historical Publications and Records Commission grants and staff. The NHPRC grants have an outstanding record of using Federal funds to stimulate private contributions to records preservation and publications projects. Through its publications grants it has helped to make available for broad public use many of the most important federal documents. Records grants are used to advise and assist state and local historical societies, archives, libraries, and associations in collecting and preserving historically valuable documents.	$4.5 million
Additional funds needed for adequate funding of NARS	$22.35 million
FY '83 Administration Request	$85. million
TOTAL AMOUNT REQUIRED FOR ADEQUATE FUNDING OF NARS -------	$107.35 million

STATEMENT OF CHARLENE N. BICKFORD

I am testifying before you today as the representative of the 57-member organization of the Coalition to Save Our Documentary Heritage. These organizations represent historians, achivists, genealogists, editors, educators, librarians, publishers and others who have a common concern for the preservation and publication of the documents that tell the story of our Nation's history for use by this and future generations.

The member organizations of the coalition strongly support an increase in the appropriation for the National Archives and Records Service (NARS) and $4 million in funding for the grants program of the National Historical Publications and Records Commission (NHPRC).

I will speak first to the NHPRC issue and then to the larger issue of the total NARS budget.

The President's budget for fiscal year 1983 requests zero funding for NHPRC grants for the second year in a row. Last year this committee chose to appropriate $3 million for this program, and the coalition applauded that decision. Parliamentary maneuvering on the House floor resulted in a compromise appropriation of only $1 million. Thus, despite the full Senate Appropriations Committee's final figure of $3 million, the NHPRC currently has only $1 million in grant funds under the continuing resolution.

This reduction of 75 percent from fiscal year 1981 has put NHPRC-sponsored publications projects in a desperate position. Most editors and sponsoring institutions, with the assistance of what is left of the NHPRC staff, have spent a considerable portion of the past year attempting to raise additional, private funds, but success in this effort has been limited. The corporation set up by the Founding Fathers projects (Adams, Washington, Franklin, Jefferson, and Madison) has been promised some foundation money, but projects publishing the papers of such notable Americans as John C. Calhoun, Ulysses S. Grant, George C. Marshall, and many others are on the brink of losing key staff members, and may close down completely. In many cases, sponsoring institutions are contributing extra support to projects, with the understanding that this is a one-time emergency measure only. If the Commission does not receive at least $3 million in fiscal year 1983, the private/public partnership that has provided the funding for these projects will collapse, and sponsoring institutions will begin to close down the projects.

At the same time, the NHPRC's grant program for the preservation of historic records across the Nation is virtually nonexistent this year. Our national heritage is an endangered species. It resides in historical records scattered throughout the communities that make up the United States. Because many of the historical societies, archives, and libraries in these communities and States lack effective methods of preserving and disseminating their records, even those of prime national interest, they are being destroyed every day at an ever-increasing rate. Without the national leadership and impetus provided by the NHPRC's records program, the work that has been begun to address these problems will be severely curtailed and will lack the national coordination now provided by the NHPRC.

The NHPRC's use of Federal funds to leverage private dollars is a success story which is almost unique in the Federal Government. Unlike programs like the NEH or NEA, the NHPRC pays no indirect costs with its grants. Sponsoring institutions are expected to contribute these costs in addition to some of the direct expenses. Projects and their sponsors are required to seek funding from private sources and are aided in this effort by the NHPRC staff. But it is the presence of the Federal funds that attracts the private contributions and assures private sponsors of the validity of the project. An appropriation of $4 million would keep this private/public funding partnership alive.

We have singled out the NHPRC appropriation from the larger budget of the National Archives partly because of the drastic nature—total elimination of all grant funds—of the President's budgetary alterations in that program. Moreover, while the NHPRC has been part of the Archives, it has historically had a separate identity because of the specific congressional mandate of its programs in 1934 at the time of the creation of the National Archives. In another sense, however, the NHPRC budget issue is merely an exaggerated form of the fiscal problems besetting the Archives.

The National Archives has a congressionally mandated responsibility to appraise and accession the records of all three branches of the Federal Government. Yet, William J.

Anderson of the General Accounting Office testified before the Government Operations Subcommittee on Government Information and Individual Rights on March 4 of this year that he had serious doubts that NARS had sufficient funds in fiscal year 1982 to fulfill that mandate.

NARS is currently operating under a continuing resolution budget of $76 million. This is a substantial reduction from the fiscal year 1981 budget of $89 million. Of the current fiscal year 1982 budget, only $47 million is available for the many services provided by NARS; the remainder is allocated primarily to the fixed costs related to the extensive space required for the storage of records. Despite the increasing quantity of materials for which NARS has responsibility—between 1960 and 1980, document storage requirements grew from approximately 912,000 to 1,339,000 cubic feet, an increase of 46.8 percent—its operating budget has not kept pace either with inflation or with the operating budgets of similar agencies with responsibility to preserve the physical evidence of our national heritage.

During the past 10 years, between 1972 and 1982, the Smithsonian Institution budget grew from $44.5 to $112 million, an increase of 151.7 percent, and the Library of Congress budget grew from $34 to $111 million, an increase of 226.5 percent. By contrast, the NARS program budget growth from $29 million in 1972 to $47 million in 1982 represents an increase of only 55.2 percent during a decade of annual double digit inflation. For another timely comparison, the representatives on this committee need only think of the $17 million estimated cost of rebuilding a Wolf Trap Theatre constructed in 1971 for $2.3 million. This represents an increase of 682.6 percent over the same period of time in which the NARS operating budget grew by less than 60 percent.

The coalition is requesting a fiscal year 1983 budget for NARS of $107 million, in contrast to the administration's proposed $85 million. The latter, although an increase over the fiscal year 1982 continuing resolution budget of $76 million, is still markedly below the fiscal year 1981 budget of $89.7 million. When new expenses for NARS in fiscal year 1983 are taken into account—including the transfer of approximately $1 million in costs for the Government Printing Office for printing the Federal Register, the absorption of pay raises from the Pay Act, and the fact that it now seems likely that GSA will shift the costs for congressionally ordered and vitally-necessary renovations to the National Archives building from the PBS budget to that of NARS—the administration budget represents, in fact, a more than $10 million reduction from fiscal year 1981 budget levels.

We believe that our budget proposal of $107 million is a conservative estimate of the additional funds needed immediately to enable NARS to fulfill its congressionally mandated mission. We are submitting as part of our written testimony a breakdown of that budget into five broad categories with specific recommendations, but let me highlight some areas in which funding is urgently needed:

Preservation.—An additional $1 million to install 24-hour climate control in all records storage areas where documents are currently at risk from inadequate conditions; $5 million to accelerate the process of microfilming heavily used and rapidly deteriorating pension and military records.

Service.—$0.8 million to reinstate the recently terminated inter-library loan of microfilms.

Planning.—$1 million to develop preservation guidelines for paper records, develop guidelines, and conduct research on processes for handling machine readable records, and to study computerization to insure maximum accessibility to materials in NARS.

Reinstatement of adequate staff.—During the last 18 months, NARS has suffered a loss of 423 permanent employees nationwide, a reduction of 19.4 percent in a highly labor-intensive agency. Since, as we have already shown, during the last decade NARS has not benefitted from substantial operating increases, and has little or no "fat" to be whittled away, restoration of services depends on replacement of lost staff, for which we propose an increase of $2.6 million over the administration budget.

It is the responsibility of the Federal Government to keep its own records and make them available to the public. The private sector cannot be expected to fund this most basic responsibility of the government of a free nation. The records that are and will be housed in the National Archives tell the story of a stable democratic government unique in world history. At the same time, they are an incredible resource for American citizens seeking their roots. We urge you, even in these times of fiscal restraint, to fund the National Archives and Records Service at a level that will allow it to fulfill its obligations to our Government and its people.

STATEMENT OF WILLIAM S. DUDLEY

Dr. Dudley. Yes, sir. I thought I would introduce my colleagues, Page Miller, who is representing the Organization of American Historians and American Historical Association, and Charlene Bickford from the Coalition to Save Our Documentary Heritage; and, since we are all speaking on the subject of the National Archives, that we would come up here together.

Senator Abdnor. OK.

Dr. Dudley. My name is William S. Dudley. I am the treasurer of the Society for History in the Federal Government. I am standing in for David Trask, who is away on business today. I am here to present our views on the budget for the National Archives and Records Service.

The members of the society are historians, archivists, records managers, documentary editors, museum curators and historic preservationists. Our membership, many of whom are employees of the Federal Government, share the profound concern of colleagues in the academic community, genealogists, and many other interested citizens that the National Archives may no longer be able to fulfill its statutory obligation to preserve the Nation's documentary heritage. We support additional appropriations for the National Archives and Records Service, including a line item to fund the National Historical Publications and Records Commission.

I should like to advance two practical arguments for this course that reflect the working experience of the members of our society, many of whom make constant use of the Archives.

One reason for insuring sufficient support for the Archives is to allow agencies to continue use of essential information deposited in the Archives. Some of this use relates to requests for specific information that come from agency officials, the Congress and the general public. Another use is to obtain information used to prepare extensive policy-related historical studies deemed useful to decisionmakers, especially planners. All study of the future rests on study of the past. Planning cannot take place without sound historical information, analysis, and judgment. In short, serious fiscal blows to the Archives deprive the Federal Government of access to indispensable information needed to fulfill a wide range of essential requirements, ranging from specific reference to complicated historical studies.

A second reason for preserving efficiency at the National Archives is the goal of achieving cost effectiveness. The argument advanced by those who propose reductions in support is that it will effect desirable economies. As it happens, however, even the most cursory test of this thesis demonstrates a contrary reality. If the centralized facility for preservation and use of historically valuable records cannot function efficiently, the agencies will have to take over some of the centralized function. For example, the inability of the Archives to accept records of the Department of State for the 1950's or for the Office of the Energy Adviser for the 1960's and beyond means that the originating agency must perform archival functions in addition to normal records management. The result of decentralized operations at the agency level is increased overall cost and decreased overall efficiency in preservation and use. By forcing decentralization of archival function, and this outcome is an inevitable consequence of cuts now contemplated, the people lose the benefits deriving from economies of scale through centralization.

Others more expert in such matters than the Society for History in the Federal Government recognize the truth of this judgment. Let me quote from a statement by the Comptroller General of the United States:

> We believe that any actions which substantially reduce NARS records management program and staff could: reduce the level of expertise available in Federal records and information management; reduce the savings which NARS staff can produce for the Government.

Why, then, have cuts been proposed? The Comptroller General answers:

> We suspect that insufficient weight was given to the tangible benefits resulting from this agency's activities.

Mr. Chairman, we in the Society for History in the Federal Government agree with the Comptroller General. I have confined my brief testimony to mention of certain tangible benefits that result from a well-supported archival program: provision of essential information services to agencies of the Federal Government; achievement of significant savings through economies of scale resulting from centralization of the most important archival functions.

Thank you very much for the opportunity to appear before you.

STATEMENT OF PAGE PUTNAM MILLER

Senator ABDNOR. Thank you, Dr. Dudley.

Dr. Miller, would you proceed?

Dr. MILLER. I am Page Putnam Miller, project director of the National Coordinating Committee, a consortium of over 20 large and small historical organizations. I am here today to speak on behalf of the approximately 20,000 historians who are members of the American Historical Association and the Organization of American Historians, the two largest learned societies in this country devoted to the study of history.

As professional historians, we are most concerned about the welfare of the National Archives and Records Service and about the preservation and accessibility of Government records. Staying close to primary sources is crucial for historians. Thus, we appreciate this opportunity to convey to you our distress over the administration's proposed fiscal year 1983 budget for NARS, which we feel is most inadequate.

Mr. Chairman, there are only two points about the NARS budget proposal that I wish to make today: First, the $85 million proposed for 1983 is, in fact, a continuation of a program of administrative neglect that makes it impossible for NARS to fulfill its legally mandated functions. And second, the National Archives is facing new and almost insurmountable challenges today; and, if additional financial resources are not forthcoming, the National Archives will become a relic of the past and not a viable agency engaged in meeting the demands of a new and technological age.

Regarding the first point on the condition of neglect, this neglect is not occurring in just one or two areas; but, instead, it permeates the entire operation of the National Archives. Let me give you a few illustrations:

In the area of preservation, many of the first-level genealogical records, which include pension and military records, are rapidly deteriorating due to heavy use. There is a pressing need to microfilm all of these valuable records before they are irreparably lost. This condition of neglect has also meant that NARS has had neither space nor staff to accept material which should have been transferred from agencies to the Archives years ago. With its staff reduced by 423 in 2 years and the material available for processing increasing, NARS is simply falling further and further behind. Accessioning of new records has come to a screeching halt, and there is every indication that NARS will not be able to comply with the 1950 Federal Records Act. Dr. Dudley has given you some illustrations of agencies that have not been able to transfer their records.

When original records are allowed to deteriorate without being microfilmed when agencies cannot transfer documents to the National Archives due to lack of staff and space at NARS, and when the accessioning program is paralyzed due to staff reductions, then it is clear that a program of neglect has been instituted. A budget of $107 million, that is approximately $22 million more than the proposed amount is needed to begin to reverse this situation of neglect.

My second point is that NARS is facing unprecedented challenges today and the recommended budget amount does not allow NARS to respond adequately to these new developments. The unprecedented challenges to which I am referring are the explosion in the number of documents to be handled, the enormous increase in reference requests, and the advent of the paperless desk with increasing use in Government of computerized data. Let me give you a few statistics to further describe these trends:

The dramatic acceleration of documents in recent years is illustrated by the fact that the bankruptcy records from all Federal district courts from 1898 to 1970, a 72-year period, amount to 115,000 cubic feet; while the district bankruptcy records, created since 1970, amount to 114,000 cubic feet. In the last decade, we have created records that equal those of the earlier 72-year period.

In addition to this enormous increase in the number of documents, there has been a rapid acceleration in recent years in reference requests. From 1976 to 1981, the staff of NARS decreased by 1 percent while the reference requests increased by 80 percent. Part of this growing interest in our past was spurred by Alex Haley's "Roots." Today nearly 80 percent of the users of the National Archives reading rooms are interested members of the public, seeking information on the history of their families and our national past. NARS needs additional staff to respond to this phenomenal growth in genealogical research.

Finally, NARS has operated from its creation under the primary assumption that Federal records meant paper records. Now NARS must make a profound adjustment to this new era of information networks. Not only does NARS need to fully computerize its own finding aids, but it needs to undertake considerable research and development in the whole field of machine-readable records. A sizable increase in the NARS appropriation is needed in order for this agency to cope with these new challenges.

I will not take the time of the committee to detail the increases, which we perceive as necessary over and above the administration's proposed budget of $85 million, but to do the job properly we insist that an additional $22 million is necessary. With the committee's permission, I will submit, attached to my written testimony, a detailed breakdown of those figures which were developed by the National Coordinating Committee for the Promotion of History.

In conclusion, on behalf of the historical community, I am hopeful that this committee will see fit to appropriate adequate funds for NARS that will enable NARS to preserve the documentary heritage of our great country.

STATEMENT OF CHARLENE BICKFORD

Senator ABDNOR. Thank you, Dr. Miller. We have made your figures a part of the record. You do have a list attached to your statement.

Ms. Bickford?

Ms. BICKFORD. Mr. Chairman and members of the subcommittee, I would first like to note that I gave out some information that is publicity on the issue of the funding of the National Archives that has been generated in the last year, and I also gave a copy of the General Accounting Office report that Dr. Dudley mentioned in his testimony. It really is a very telling report on the situation that now exists at the National Archives.

I am testifying today on behalf of the 57-member organization of the Coalition to Save Our Documentary Heritage. These organizations represent historians, achivists, genealogists, editors, educators, librarians, publishers and others who have a common concern for the preservation and publication of the documents that tell the story of our Nation's history for use by this and future generations. I might add that the organizations represented on this panel with me are also members of this coalition.

The member organizations of the coalition strongly support an increase in the appropriation for the National Archives and Records Service and $4 million in funding for the grants program of the National Historical Publications and Records Commission.

I will speak first to the NHPRC issue and then to the large issue of the total NARS budget.

The President's budget for fiscal year 1983 requests zero funding for NHPRC grants for the second year in a row. Last year this committee chose to appropriate $3 million for this program, and the coalition applauded that decision. Parliamentary maneuvering on the House floor resulted in a compromise appropriation of only $1 million. Thus, despite the full Senate Appropriations Committee's final figure of $3 million, tne NHPRC currently has only $1 million in grant funds under the continuing resolution.

This reduction of 75 percent from fiscal year 1981 has put NHPRC-sponsored publications projects in a desperate position. Most editors and sponsoring institutions, with the assistance of what is left of the NHPRC staff, have spent a considerable portion of the past year attempting to raise additional, private funds, but success in this effort has been limited. The corporation set up by the Founding Fathers projects—Adams, Washington, Franklin, Jefferson, and Madison—has been promised some foundation money, but projects publishing the papers of such notable Americans as John C. Calhoun, Ulysses S. Grant, George C. Marshall, and many others are on the brink of losing key staff members,and may close down completely. In many cases, sponsoring institutions are contributing extra support to projects, with the understanding that this is a one-time emergency measure only. If the commission does not receive at least $3 million in fiscal year 1983, the private/public partnership that has provided the funding for these projects will collapse, and sponsoring institutions will begin to close down the projects.

At the same time, the NHPRC's grant program for the preservation of historic records across the Nation is virtually nonexistent this year. Our national heritage is an endangered species. It resides in historical records scattered throughout the communities that make up the United States. Because many of the historical societies, archives, and libraries in these communities and States lack effective methods of preserving and disseminating their records, even those of prime national interest, they are being destroyed every day at an ever-increasing rate. Without the national leadership and impetus provided by the NHPRC's records program, the work that has been begun to address these problems will be severely curtailed and will lack the national coordination now provided by the NHPRC.

The NHPRC's use of Federal funds to leverage private dollars is a success story which is almost unique in the Federal Government. Unlike programs like the NEH or NEA, the NHPRC pays no indirect costs with its grants. Sponsoring institutions are expected to contribute these costs in addition to some of the direct expenses. Projects and their sponsors are required to seek funding from private sources and are aided in this effort by the NHPRC staff. But it is the presence of the Federal funds that attracts the private contributions and assures private sponsors of the validity of the project. An appropriation of $4 million would keep this private/public funding partnership alive.

We have singled out the NHPRC appropriation from the larger budget of the National Archives partly because of the drastic nature—total elimination of all grant funds—of the President's budgetary alterations in that program. Moreover, while the NHPRC has been part of the Archives, it has historically had a separate identity because of the specific congressional mandate of its programs in 1934 at the time of the creation of the National Archives. In another sense, however, the

NHPRC-budget issue is merely an exaggerated form of the fiscal problems besetting the Archives.

The National Archives has a congressionally mandated responsibility to appraise and accession the records of all three branches of the Federal Government. Yet, William J. Anderson of the General Accounting Office testified before the Government Operations Subcommittee on Government Information and Individual Rights on March 4 of this year that he had serious doubts that NARS had sufficient funds in fiscal year 1982 to fulfill that mandate.

NARS is currently operating under a continuing resolution budget of $76 million. This is a substantial reduction from the fiscal year 1981 budget of $89 million. Of the current fiscal year 1982 budget, only $47 million is available for the many services provided by NARS; the remainder is allocated primarily to the fixed costs related to the extensive space required for the storage of records. Despite the increasing quantity of materials for which NARS has responsibility—between 1960 and 1980, document storage requirements grew from approximately 912,000 to 1,339,000 cubic feet, an increase of 46.8 percent—its operating budget has not kept pace either with inflation or with the operating budgets of similar agencies with responsibility to preserve the physical evidence of our national heritage.

During the past 10 years, between 1972 and 1982, the Smithsonian Institution budget grew from $44.5 to $112 million, an increase of 151.7 percent, and the Library of Congress budget grew from $34 to $111 million, an increase of 226.5 percent. By contrast, the NARS program budget growth—this is in their program budget strictly—from $29 million in 1972 to $47 million in 1982 represents an increase of only 55.2 percent during a decade of annual double-digit inflation. For another timely comparison, the representatives on this committee need only think of the $17 million estimated cost of rebuilding a Wolf Trap Theatre constructed in 1971 for $2.3 million. This represents an increase of 682.6 percent over the same period of time in which the NARS operating budget grew by less than 60 percent.

The coalition is requesting a fiscal year 1983 budget for NARS of $107 million, in contrast to the administration's proposed $85 million. The latter, although an increase over the fiscal year 1982 continuing resolution budget of $76 million, is still markedly below the fiscal year 1981 budget of $89.7 million. When new expenses for NARS in fiscal year 1983 are taken into account—including the transfer of approximately $1 million in costs for the Government Printing Office for printing the Federal Register, the absorption of pay raises from the Pay Act, and the fact that it now seems likely that GSA will shift the costs for congressionally-ordered and vitally-necessary renovations to the National Archives building from the PBS budget to that of NARS—the administration budget represents, in fact, a more than $10 million reduction from fiscal year 1981 budget levels.

We belive that our budget proposal of $107 million is a conservative estimate of the additional funds needed immediately to enable NARS to fulfill its congressionally-mandated mission. We are submitting the same document that Dr. Miller submitted with his testimony, and I would, instead of highlighting that, I would like to pick up on the problem of personnel in the Archives.

I did some calling around to get some figures on office staffing and branch staffing within the National Archives.

The issue of computer-readable information was mentioned. If you don't have adequate control, somebody can push a button and they will be gone. At the same time, this branch of NARS, when it had a staff of 21 at the beginning of fiscal year 1981, didn't feel that it was adequately equipped to deal with the kind of mushrooming of these kinds of records that we have in agencies. It has now—It is now going to have a staff of 10, instead of 21, at the end of—or at the beginning of fiscal year 1983.

In the area of declassification of classified records, at the start of fiscal year 1981, they had 96 staff members. At the start of fiscal year 1982, they had 67 staff members. Currently, they have 47 staff members, but 16 of these people are term employees who are paid on a reimbursable basis for the State Department and are working exclusively on the declassification of the 1950 to 1954 State Department records. What is happening is that the cost of doing this has been shifted from the National Archives to the State Department, and it became the agency which decides what is going to be done in terms of our records, rather than the Archives itself. So the agency becomes the maker of archival policy.

Then, if you are looking into management in the Archives, the Office of Management Analysis in the Archives had 15 staff members at the beginning of 1981. By the end of the summer, they will be down to three full-time staff members and three part-timers. I mentioned before the situation of the staff of the National Historic Publications Commission. At the beginning of fiscal year 1981, they had 23 employees. At the beginning of fiscal year 1983, they are supposed to be down to four. At the same time, the administration is saying private funds can fund these projects, and the staff has been working to organize consortia to get private funding, but with only four people there, the charges of their getting to do this are minimal.

So that is our point. In general, the NARS staff, the latest figure is that they have lost 484 employees, which is a total staff loss of 22.2 percent in the last 18 months in a highly labor-intensive agency where their workload is constantly increasing.

Since we have already shown that in the last decade NARS has not benefited from substantial operating increases and there was little or no fat to be whittled away, the restoration of services really depends on the replacement of the lost staff.

Is it the responsibility of the Federal Government to keep its own records and make them available to the public? The private sector cannot be expected to fund this most basic responsibility of the Government of a free Nation. The records that are—and will be—housed in the National Archives tell the story of a stable democratic government unique in world history. At the same time, they are an incredible resource for American citizens seeking their roots. We urge you, even in these times of fiscal restraint, to fund the National Archives and Records Service at a level that will allow it to fulfill its obligations to our Government and its people.

I have an attached list of our members.

Senator ABDNOR. They will all be made part of the record.

We thank all of you. You have given very good and detailed statements.

You know, it is difficult, no matter how we go. Today was my turn to Chair the committee, and I listened to testimony most of the afternoon, and they are all very excellent cases. It is going to be difficult as we wrestle with the budget.

You have been, I believe, exempted from the SLUC program, which I guess will make some difference. Does anyone have any idea what that means in dollars? That is the standard level user charge.

Ms. BICKFORD. $10.8 million. That will be a 1-year relief. In 1983, they will have to pay the operating costs of the presidential libraries and the National Archives building, so the gain would be in the neighborhood of $1 million after they pay costs; and, if they have to do major renovations in the main building, it may cost them money.

They will be able to rehire 40 people and do a couple of projects. They will convert amyl nitrate film, which is very flammable, and they have had film fires before.

Senator ABDNOR. I guess I wasn't aware that it was only a 1-year difference. I know Mr. Carmen mentioned that this year. I was assuming that that was a permanent thing.

Ms. BICKFORD. They are released from the SLUC permanently, but it is only this year that they don't have to pay the cost of the buildings themselves. They don't get the automatic SLUC charge, but they get the costs of operating the buildings themselves. This year, 1982, they don't have to pay those costs.

Senator ABDNOR. As I say, it is a very complete statement; and, at this point in time, we appreciate the testimony of people not directly involved in the agency itself. We thank you very much.

Mr. DELANEY. Thank you, Senator.

NATIONAL FEDERATION OF FEDERAL EMPLOYEES

STATEMENT OF DAVID GUSKY

Senator ABDNOR. The next witness is the National Federation of Federal Employees.

Mr. GUSKY. Mr. Chairman, we have a prepared statement which we will submit for the record, and I will quickly summarize.

The National Federation of Federal Employees is pleased to appear here today to testify on the fiscal year 1983 appropriations under the jurisdiction of the subcommittee. Since NFFE represents employees at the General Services Administration, we are extremely concerned about the proposed budget for the GSA. The federation is equally interested in the budget of the Federal Labor Relations Authority and the Merit Systems Protection Board, which serve to protect the rights of Federal employees.

The General Services Administration suffered considerably in last year's budget process when Congress failed to approve the Treasury, Postal Service and General Government appropriation bill, H.R. 4121. GSA, as well as the FLRA and MSPB, received their funding through numerous continuing resolutions and were subject to drastic spending reductions. The third continuing resolution imposed an across-the-board spending cut of 4 percent, which was in addition to a 12-percent reduction made by the Senate Appropriations Committee to the operating, salary, and expense accounts of most agencies included in H.R. 4121. The total reduction for GSA was closer to 16 percent. As a result of these large spending cuts, as many as 1,000 employees in the agency were subject to reductions in force, although work requirements remain the same.

Unfortunately, the situation appears to deteriorate further.

These drastic personnel reductions will ultimately harm GSA performance. Furthermore, their impact will spread throughout the Federal Government. Guard services, janitorial services, buildings maintenance, quality assurance laboratories, switchboard-operator services, computer operations, warehouses, record centers, microfilm labs, and world processing centers currently provide just a few of the support services GSA provides to most agencies. Lost on delayed service due to personnel reductions will have a negative effect throughout the entire Federal Government. In order to reduce work backlogs, the GSA will probably increase its contracting out. Federal agencies will then be forced to bear the additional burden of shoddy workmanship, high cost, and poor quality, usually attributed to contract work.

Equally disturbing to our membership are the unnecessary and destructive spending cuts which were imposed in fiscal year 1982 upon two agencies serving the Federal work force. The salary and expense accounts of the Merit Systems Protection Board and the Federal Labor Relations Authority, both of which are labor-intensive, have been cut by nearly 16 percent. The curtailment of activities which resulted have caused farreaching disruptions to the employee protections guaranteed under the Civil Service Reform Act. The severe budgetary restrictions have come at the very time when the protections are most needed by an unprecedented number of employees who are facing RIF's and furloughs. Furthermore, the MSPB has still to hear the appeals of 11,000 air traffic controllers.

Many Federal employees have been demoralized by the administration's not-so-subtle attacks on the Federal work force. It appears that the administration is doing everything possible to drive employees out of the civil service by eliminating necessary positions and complicating the appeals and hearing process. It is NFFE's hope that this subcommittee will bear in mind the large backlog and increase in appeals, ULP's and delayed hearings with which the MSPB and FLRA must deal in fiscal year 1983 and appropriate funds accordingly. Funding and personnel should be restored to at least pre-fiscal year 1982 levels for the FLRA. Funding for the MSPB should also be substantially higher next year. Although the new budget proposes a slight spending increase for the MSPB, only one additional full-time permanent position has been added. Already severely behind in work, the agency desperately requires additional personnel. Unfortunately, there is no guarantee that the urgent supplemental bill, H.R. 5922, will be signed into law, and the agency's burdens could easily multiply. I hope the subcommittee will, therefore, consider the desperate financial and personnel hardships under which the MSPB is operating and appropriate the money necessary to fulfill its mission.

Senator ABDNOR. Thank you.

I have been given a paper here that—OMB is going to go along with the House on a late-budget request of $2,330,000 submitted on March 13. They are going to go along with the initial-budget request for $4 million.

Mr. GUSKY. That is encouraging to the MSPW, because they are severely strapped.

Senator ABDNOR. All right. That makes it a lot easier on us, too, when we divide up the meager funds that we seem to have allocated to this section of the budget.

So, we appreciate your being here, and your statement, which has been placed in the record in its entirety. We will see how we come out on it.

Mr. GUSKY. Thank you, Mr. Chairman.

PREPARED STATEMENT

Senator ABDNOR. Your statement will be inserted in the record at this point.

[The statement follows:]

Statement of David Gusky

The National Federation of Federal Employees is pleased to appear today to testify on fiscal year 1983 appropriations under the jurisdiction of the subcommittee. Since NFFE represents employees at the General Services Administration, we are extremely concerned about the proposed budget for the GSA. The Federation is equally interested in the budget of the Federal Labor Relations Authority and the Merit Systems Protection Board, which serve to protect the rights of Federal employees.

The General Services Administration suffered considerably in last year's budget process when Congress failed to approve the Treasury, Postal Service and General Government Appropriation Bill (H.R. 4121). GSA, as well as the FLRA and MSPB, received their funding through numerous continuing resolutions and were subject to drastic spending reductions. The third continuing resolution imposed an across-the-board spending cut of 4 percent, which was in addition to a 12 percent reduction made by the Senate Appropriations Committee to the operating, salary and expense accounts of most agencies included in H.R. 4121. The total reduction for GSA was closer to 16 percent. As a result of these large spending cuts, many employees within the agency were subject to reductions-in-force (RIFs) although work requirements remained the same.

Morale within the GSA has reached an all-time low. Employees face ever-increasing workloads because positions are either being eliminated or vacant positions are remaining unfilled. Unfortunately, the situation appears to deteriorate further under the new budget proposals. The GSA's FY '83 budget justification indicates a net decrease of 1,147 average positions. The decrease in permanent positions (actual number of staff) is even more drastic, especially when compared to FY'81, the last year an appropriation bill for GSA was signed into law. Positions are scheduled to drop from 34,498 in FY'81 to 29,560 in FY'83.

These drastic personnel reductions will ultimately harm GSA performance. Furthermore, their impact will spread throughout the Federal Government. Guard services, janitorial services, buildings maintenance, quality assurance laboratories, switchboard operator services, computer operations, warehouses, record centers, microfilm labs and word processing centers currently provide just a few of the support services GSA provides to most agencies. Lost on delayed service due to personnel reductions will have a negative effect throughout the entire Federal government. In order to reduce work backlogs, the GSA will probably increase its contracting out. Federal agencies will then be forced to bear the additional burden of shoddy workmanship, high cost and poor quality usually attributed to contract work. It is an undisputed fact that cutbacks in Federal personnel lead to a greater reliance on contracting out functions. Additionally, a proposed revision of the Office of Management and Budget Circular A-76 which governs contract policy would require letting contracts for functions with 25 or fewer personnel as well as all new starts. Cost-comparisons would not be required. The draft proposal is an open invitation to private contractors to compete only among themselves for the chance to rip-off the Federal Government to the tune of billions of dollars. Ironically, this comes at a time when the Reagan Administration is advocating fiscal restraint. The end result will be the elimination of the controls agencies now have over their own employees.

The GSA is presently studying several areas within the agency with the intention of contracting out. Janitorial/ custodial functions as well as protective service and motor pool services are under consideration. However, the ongoing cost-studies of numerous mechanical functions have called into question the

GSA's approach to contract policy. The agency may have discovered that a sure-fire way to contract out such operations is to divide them into contracts of less than $100,000, thereby avoiding the requirement for cost-comparison studies. For example, in Chicago, Illinois (GSA Region 5) the National Archives and Records Service (NARC) mechanical operations at 7358 South Pulaski Street and the Federal Service and Support Depot (FSS) at 4100 West 76th Street have been split into two separate functions costing under $100,000 annually. However, on February 12, the Buildings Management Division of the GSA noted that the mechanical operations at the FSS Depot were greater than $100,000 annually. Furthermore, employees of both facilities, which are part of the same installation, share the same lockerroom and have the same supervisor. The decision to split the function into two work contracts can only be to facilitate their contracting out.

Equally disturbing to our membership are the unnecessary and destructive spending cuts which were imposed in FY'82 upon two agencies serving the Federal workforce. The salary and expense accounts of the Merit Systems Protection Board and the Federal Labor Relations Authority, both of which are labor-intensive, have been cut by nearly 16 percent. The curtailment of activities which resulted have caused far-reaching disruptions to the employee protections guaranteed under the Civil Service Reform Act. The severe budgetary restrictions have come at the very time when the protections are most needed by an unprecedented number of employees who are facing RIFs and furloughs. Furthermore, the MSPB has still to hear the appeals of 11,000 air-traffic controllers.

Most agencies under the Subcommittee's jurisdiction have sustained disproportionate budget cuts in comparison to other agencies. As a result of fiscal restraints, the Board has been unable to preside over hearings outside its immediate vicinity.

Travel restrictions have subsequently threatened employee appeal rights because hearings are continually postponed and seldom rescheduled.

Agencies and unions involved in an appeal are often required to bear the burden of travel costs to bring witnesses to the MSPB. When these costs are prohibitive, the hearing of an appeal is postponed. For example, a member of NFFE Local 1429 in Chambersburg, Pennsylvania appealed his removal from government employment to the MSPB, whose costs to send an official to Chambersburg to hear the appeal would have amounted to $360. However, due to budget cuts, the MSPB could not send the official. The only way the appeal could have been heard would have been to transpor 34 witnesses to Philadelphia at a cost of $21,000. Neither the Letterkenny Army Depot or the Local involved could reduce their witness list, and thus their costs, without endangering the integrity of their defense. The hearing was therefore indefinitely postponed. Unfortunately, this situation is being repeated throughout the country. It has become so severe that an additional $4 million has been requested for the MSPB in the Urgent Supplemental Appropriation Bill, H.R. 5922.

The Office of the General Counsel of the FLRA has also suffered from the budget cuts this year. The Counsel is required to supervise representation elections in the Federal Government and conduct investigations and hearings with respect to unfair labor practices and unit determinations. However, fiscal restraints initially forced the office to cancel all activities involving travel outside the FLRA's regional offices. For several months, virtually all work for which the Counsel has legal responsibility was abruptly halted. Although the travel restriction is no longer formally in place, hearings and investigations are still subject to long delays.

Many Federal employees have been demoralized by the Administration's not-so-subtle attacks on the Federal workforce. It appears that the Administration is doing everything possible to drive employees out of the civil service by eliminating necessary positions and complicating the appeals and hearing process. It is NFFE's hope that this subcommittee will bear in mind the large backlog and increase in appeals, ULPs and delayed hearings with which the MSPB and FLRA must deal in FY'83 and appropriate funds accordingly. Funding and personnel should be restored to at least pre-FY'82 levels for the FLRA. Funding for the MSPB should also be substantially higher next year. Although the new budget proposes a slight spending increase for the MSPB, only one additional full-time permanent position has been added. Already severely behind in work, the agency desperately requires additional personnel. Unfortunately, there is no guarantee that the urgent supplemental bill H.R. 5922 will be signed into law, and the agency's burdens could easily multiply. I hope the subcommittee will therefore consider the desperate financial and personnel hardships under which the MSPB is operating and appropriate the money necessary to fulfill its mission.

Thank you. I will be happy to answer any questions you might have at this point.

NATIONAL TREASURY EMPLOYEES UNION

STATEMENT OF VINCENT L. CONNERY, NATIONAL PRESIDENT ACCOMPANIED BY PATRICK SMITH, DIRECTOR OF LEGISLATION

PREPARED STATEMENT

Senator ABDNOR. Our next witness is the National Treasury Employees Union.

Mr. CONNERY. Mr. Chairman and members of the subcommittee, I am Vincent L. Connery, national president of the National Treasury Employees Union. Accompanying me is Patrick Smith, director of legislation.

Our union is the exclusive representative of approximately 120,000 Federal workers, including virtually all employees of the Internal Revenue Service.

On behalf of the thousands of dedicated men and women who collect the revenue of the Federal Government, I appreciate the opportunity to express our union's views on the Reagan administration's budget proposal for the IRS for fiscal year 1983. We have prepared a detailed statement on this topic which we ask be included in the record of these hearings.

Senator ABDNOR. Without objection, it will be made a part of the record.

[The statement follows:]

STATEMENT OF VINCENT L. CONNERY

I am Vincent L. Connery, National President of the National Treasury Employees Union. With me is Jerry D. Klepner, our union's Director of Legislation. As the exclusive representative of over 125,000 Federal workers, including all employees of the U.S. Customs Service worldwide, we are pleased to appear before you today to discuss the appropriations for the U.S. Customs Service for Fiscal Year 1983.

Since 1980, this Subcommittee has taken the lead in Congressional efforts to provide adequate funding for the Customs Service. Last year, the Subcommittee wisely rejected the shortsighted request of the Reagan Administration to cut Customs appropriations by $18 million, and instead reported a bill which allowed Customs to maintain present staff and operational levels through FY 1982.

Previous reports of the Subcommittee have taken note of the critical shortage of resources handicapping the Service's ability to enforce the customs laws of the country in the face of rapidly escalating growth in foreign commerce, international travel, and drug traffic. These reports have stressed the necessity of finding solutions to an intolerable situation in which Customs is emerging as a bottleneck to the free movement of persons and goods at the nation's port of entry.

Based upon this background, it is with high hope that we once again appear before the Subcommittee to recommend an increase in funding for the U.S. Customs Service. In the face of the extraordinary circumstances stretching Customs to the limits of its capacity, decisions are urgently required to eliminate the present obstacles to international trade and tourism while safeguarding America's frontiers from the current tidal wave of illegal immigration and drug traffic.

In the search for solutions to this situation, we wish to underline three basic points:

* first, it has been recommended on many occasions that additional personnel and other resources are needed to perform effectively;

* second, it is extremely unwise to make economies, as has been the practice in recent years, at the expense of a law enforcement arm

such as the Customs Service, because reductions only rebound as long-run costs in other parts of state, local, and Federal budgets;

* third, the Congress must continue to take the lead in formulating sound program and budget policies for the Customs Service because the Administration's budget proposals have been totally unrealistic. These recommendations have totally ignored our experience at our air, land, and sea ports, and have exacerbated a critical situation by causing Customs management to adopt policies that have created wide areas of minimal enforcement or non-enforcement.

Last year, the Subcommittee appropriated $503 million for the Customs Service. In September, through the continuing appropriations process, the Administration attempted to reduce this amount by $29 million, including a cutback of 300 Inspectors, 200 Import Specialists, and 100 Customs Patrol Officers. Congress, however, refused to go along. In the Continuing Resolution which provided funding for FY 1982, Congress provided $493.7 million and 13,200 staff-years, and directed the Administration to maintain Customs employment at the level of April 30, 1981.

We are also pleased to note that the House Committee on Ways and Means has approved an authorization bill introduced by Sam Gibbons (D-FL) which funds Customs at a level of $568,801,000. This amount includes $31 million for Alcohol and Tobacco functions, but nonetheless maintains current Customs staff levels.

The congressional intent to maintain the strength of the Customs Service and to prevent further reductions in personnel was expressed in two separate enactments during 1981, the Continuing Resolution and the Supplemental Appropriations and Recission Bill of 1981. Nevertheless, the Administration now proposes a Fiscal Year 1983 budget that would cut 1,338 staff-years from the Service below the level of the FY 1982 Continuing Resolution. (This cutback is in Customs Service functions, and is independent of the proposed merger of the alcohol and tobacco regulatory functions of the Bureau of Alcohol, Tobacco and Firearms with the Customs Service.)

The Administration plans to achieve this reduction through a hiring freeze and attrition of 400 positions during the year, and a reduction-in-force (RIF) of 638 positions beginning this October 1. This program would entail a loss of 678 Inspectors, 100 Import Specialists and 54 Customs Patrol Officers through both RIF and attrition.

If the RIF is delayed until January 1, 1983, as Customs now plans, the number of persons discharged through RIF procedures would rise to 1,504, or approximately 14 percent of the presently authorized strength of the Customs Service. Coupled with the loss of 400 positions through attrition, this would yield a total reduction of 1,904 employees, including 873 Inspectors, 239 Import Specialists, and 97 Customs Patrol Officers.

Even these reductions are contingent upon favorable congressional action in two areas:

* first, the Administration plans to impose aviation user fees that would collect $6 million, and use these funds to support 300 Inspector positions on a reimbursable basis. If Congress fails to approve this plan, the required reduction-in-force could be 300 positions greater, rising to 2,204 positions;

* second, the Administration has requested a supplemental appropriations for FY 1982 of $22,346,000, which would permit the alcohol and tobacco regulatory functions being transferred to Customs to be sustained at an operating level of 719 staff-years. While final action has been delayed beyond the original transfer date of April 1, 1982, we urge the Subcommittee to monitor the situation to ensure that the Customs mission is not jeopardized by the ATF reorganization. Because the alcohol and tobacco program is predicated upon a 719 staff-year level of effort, and only 360 staff-years have been funded by the Administration for FY 1982, it is necessary that Congress grant the requested supplemental. If Congress fails to do so, Customs would have to undertake an additional RIF of 359 positions. It is likely that the bulk of such a RIF would be taken from Customs functions, since alcohol and tobacco regulation has already been pared considerably, and the collection of $8.2 billion in alcohol and tobacco excises would be jeopardized.

With regard to FY 1982, the Administration has not yet submitted, nor has Congress had the opportunity to consider, a pay supplemental to cover the 4.8 percent pay raise that became effective last October. Until such a supplemental is submitted, we do not know how much of the pay requirement, if any, the Administration would force Customs to absorb. We believe that any such action on the part of the Administration would result in a reduction in positions, and would violate the specific mandate of Congress not to effect a reduction in Customs strength below the level of April 30, 1981.

This budget proposal hardly squares with the Administration's avowed determination to crack down on the rising tide of violent crime, narcotics trafficking, and illegal immigration that is sorely afflicting this country. Last year, the Attorney General's Task Force on Violent Crime strongly recommended additional resources for Federal law enforcement agencies as the single most significant step the Federal government could take to stem the present wave of crime. The Task Force stated:

> "We wish to emphasize that the Federal Government's first priority should be to provide adequate resources to its own offices which are involved in fighting violent crime and to assure that its policies are clear and sound in all matters which impact on state and local law enforcement."

The Task Force also called for "a clear, coherent, and consistent enforcement policy with regard to narcotics and dangerous drugs", to include "a border policy designed to effectively detect and intercept the illegal importation of narcotics, including the use of military assistance." Yet Customs, which is on the front line in this struggle as the nation's principal border enforcement agency, is to be reduced by 742 staff-years in its Inspection and Tactical Interdiction resources under the Administration's budget proposal.

Nowhere is the duplicity of the Administration more evident than in the contrast between the resources provided in its budget and its anti-crime rhetoric. The Administration's proposal would result in the wholesale dismantling of the protections afforded the American businessman, the American worker, and the public through effective enforcement of the Customs laws. Once again the burden is on Congress to formulate a rational policy, and to begin this year by providing essential resources to eliminate the congestion at our ports of entry, stem the decline in enforcement, and lay the foundation for a modern, effective Service in the future.

We welcome the opportunity to participate in this task as the representative of the thousands of dedicated Customs employees whose service is of inestimable value to the nation, yet who have been remarkably ill-served by this Administration.

In the remainder of our testimony, we would like to call the Subcommittee's attention to today's challenges to Customs law enforcement, and the environment in which the Service must accomplish its mission. We would then like to discuss the major problems and issues in each of the principal areas of Customs activity: Inspection and Control, Tariff and Trade, and Tactical Interdiction. We will also present our views on the proposed absorption of the alcohol and tobacco regulatory functions of the Treasury Department. We will conclude with recommendations for an alternative budget for Fiscal Year 1983.

The Challenge to Customs Enforcement Today

As the nation's principal border enforcement agency, the Customs Service is responsible for processing the flow of merchandise and travelers at over 300 ports of entry, and for interdicting the movement of illegal narcotics and contraband between these ports. With approximately 15,000 full and part-time personnel, Customs is responsible for a frontier that is 26,000 miles in length as the crow flies, and 100,000 miles if measured by the length of the tidal shoreline. By contrast, many other developed countries have a much larger force to carry out the customs mission. For example, the German Customs Administration employs 34,700 persons, yet the frontier of the Federal Republic is only 2,000 miles long.

The question before the Congress today is whether Customs is to be provided the resources needed to effectively carry out the customs laws. These laws were passed by Congress to protect important American interests. In recent years, as the economy has become increasingly open to foreign trade, and international travelers have visted our country in record numbers, the challenge of enforcement has increased and brought with it a requirement for additional resources. The question then becomes one of weighing the cost of the additional resources against the cost to society of non-enforcement of the customs laws.

The following are examples of important American interests that are protected by Customs, where lax enforcement would be extremely costly to the economy and society:

1. Interdicting the drug trade.

The retail value of illicit drugs supplied to the U.S. market in 1980 is estimated by the Drug Enforcement Administration (DEA) to be $70-90 billion, well above the estimated $56-73 billion in 1979 and almost double the $44-63 billion in 1978. Today, in America, there are an estimated 400,000 to 450,000 heroin addicts, 25 million people who use marihuana at least monthly, 10 million cocaine abusers, and more users of dangerous pills such as quaaludes than ever before.

The burden of drug use has a significant impact on the health care system, the criminal justice system, the employment market, and the social services system. The Strategy Council on Drug Abuse has estimated that the social cost of drug abuse is $10 billion annually. In the first quarter of 1980, 60,000 persons were admitted to federally funded programs for drug abuse of all types, according to the National Institute on Drug Abuse. This is a rate of 240,000 admissions annually, up 10 percent over 1979.

Of special concern is the impact that drugs smuggled into this country have on our youth. The Director of the National Institute on Drug Abuse has testified that "our young people still show the highest level of drug use of young people anywhere in the industrialized world." In 1980, 9 percent of our high school students used marihuana daily. The number of young adults, age 18-25, using cocaine is estimated at 1,100,000.

An estimated 90 percent of the drugs abused in this country come from abroad. The Chairman of the House Select Committee on Narcotics Abuse and Control testified last year that, according to the best government estimates, no more than 10 percent of the drug traffic is interdicted. Last year, between 40 and 48 tons of cocaine were imported, and between 10,600 and 15,500 tons of marihuana were consumed. Much of this was flown into the country by sophisticated aircraft. Customs estimates that, of an estimated 7,000 sorties a year entering the country, only about 1 percent are successfully interdicted.

The regional impact of the illicit drug traffic is particularly severe in the Southeastern United States. According to Customs and DEA, an estimated 70 percent of the cocaine, 80 percent of the marihuana, and 90 percent of the quaaludes smuggled into the United States come through Florida, Georgia, and the Carolinas. In Florida alone, the drug traffic is estimated at $7-10 billion annually. This amount is not only untaxed, but is severely distorting the local economy, particularly the real estate market. In a column from Miami on November 22, 1981, titled "The Cocaine Lords are Winning", James J. Kilpatrick summed up the reaction of a dozen local police chiefs:

> "What's wrong with Congress? the chiefs ask. Why doesn't Congress act on these things?"

The high rate of drug use in the nation is intimately linked with the rising rate of violent crime, which increased 9 percent between 1979 and 1980. The Attorney General's Task Force on Violent Crime stated:

> "Throughout the course of our hearings, a recurrent theme has been the importance of more effectively combatting narcotics traffic. From Washington to Los Angeles, from Detroit to Miami, we have heard officials and scholars stress the connection between drugs and violent crime."

Customs Inspectors, Customs Patrol Officers, and Special Agents play a vital role in the war against drug traffic. Sufficient resources to maintain and improve Customs' tactical interdiction capability are absolutely crucial. We urge the Subcommittee to immediately increase the tactical interdiction resources of the Customs Service on land, sea, and air in order to make greater progress against cocaine and marihuana flooding into Florida and other Southeastern and Gulf Coast states from Latin America.

2. Halting Illegal Immigration.

The Customs Service participates in the control of illegal immigration at land border ports and outports where no Immigration and Naturalization Service (INS) Inspector is available, and at airports where Customs and INS Inspectors are cross-trained to perform each other's missions. The magnitude of illegal immigration into the country, and the attendant social consequences (lost jobs, lower wages, sweatshop working conditions, and strained community services), are fueling the call for better enforcement at our nation's frontiers.

The Administration, seemingly, has placed itself at the head of this movement. After receiving the report of the bi-partisan Select Commission on Immigration and Refugee Policy last year, the Attorney General submitted legislative proposals to Congress in July. The Administration pointed out that there are currently between 3.5 million and 6 million people in the United States illegally --at least 50 percent from Mexico. Moreover, about 1 to 1.5 million persons entered illegally in 1980. Calling for enactment of the President's program, the Attorney General stated:

> "There is only one real issue in the debate over our devastating immigration problem: will the nation at last summon the will to take the necessary steps to solve it? Or will the neglect of decades continue, posing the possibility that the problem quite soon will be beyond reasonable hope of correction?"

The Attorney General is right, of course, in calling this a devastating problem. But it is difficult to see how the Customs Service personnel reductions serve the cause of halting the tide of illegal immigration. We urge the Subcommittee to recognize the joint role of Customs and INS in carrying out this important mission, and to allocate the additional resources necessary to secure our society and ecomony from this growing burden.

3. Protecting the American Automobile Industry

As this Subcommittee is acutely aware, the domestic automobile industry is in the throes of an unprecedented crisis and the question of restricting foreign automobile imports is very high on the national agenda. During 1981, foreign imports as a percentage of total automobile sales rose to the highest level in history, 27.2 percent up from 26.7 percent the year before. At the end of December 1981, 213,000 automobile workers were on indefinite layoff, compared to 190,00 a year earlier.

At the present time, the Customs Service is responsible for monitoring the volume of automobile imports, ensuring compliance with U.S. emission control standards, classifying shipments in accordance with the U.S. tariff schedules, and collecting appropriate duties. While the Japanese have instituted a policy of voluntary restraint aimed at restricting automobile exports to this country to 1.6 million units a year, figures show that 1,778,495 units were imported from Japan in 1981.

It is unclear whether additional relief will be needed to save American jobs and help rejuvenate an ailing industry. Should a quota be adopted, or an orderly marketing agreement formally placed into effect, it is clear that the burden of administering such a policy will fall squarely upon the Customs Service. Considering the real possibility of such action, and the important national interest involved, the shortsightedness of a cutback in the Inspectional and Classification and Valuation resources of the Customs Service at this juncture becomes readily apparent.

In this connection, Mr. Chairman, we would like to note the warning sounded in the report of the Congressional trade delegation which visited the Far East last summer. The report of the delegation pointed out that Japan has traditionally protected its new industries from import competition while fostering their growth and promoting their exports. Only when Japanese industries were world-class did Japan liberalize her trade barriers and permit competition in its domestic market. The report stated:

> "We do not know if it (Japan) will repeat itself in the new industries of the 1980's, such as genetic engineering,

> software and aviation, but the U.S. must be prepared to prevent this pattern from recurring."

If this goal is to be achieved, Mr. Chairman, protecting American industries through import restrictions of our own is one of the many policies that must be considered, and we submit that this country should not unilaterally disarm itself in this regard by failing to provide adequate resources for its Customs Service. From what we understand, Japanese Customs has been quite successful in protecting Japanese markets through both visible and invisible barriers to trade.

4. Protecting the Domestic Steel Industry

In a similar vein, the difficulties of the U.S. steel industry in recent months serve to illustrate the Customs role in safeguarding another vital national economic interest. As you are aware, implementation of the steel Trigger Price Mechanism (TPM) from October 1980 until its recent suspension on January 11, 1982 was a Customs responsibility. For each steel shipment to this country, Customs determined volume, price and country of origin data, computed an adjusted price for the shipment and an associated trigger price, and forwarded this information to the Department of Commerce and the International Trade Commission for a determination of whether dumping had occurred and whether there had been any injury to domestic industry resulting from these imports.

On January 11, 1982 the TPM was suspended by the Administration when several major domestic steel producers filed complaints with the International Trade Commission alleging that certain foreign producers violated the anti-dumping and countervailing duty laws. On February 18, 1982 the International Trade Commission ruled that most of the complaints filed showed a reasonable indication of material injury to the domestic steel industry.

The TPM is a good example of what happens when a new mission is imposed upon the Customs Service without providing the additional resources required for its accomplishment. At the height of the TPM, the Customs Service had committed approximately 150 Import Specialist staff-years to this function because of the high priority assigned by the Congress and the Administration. Customs testified during last year's authorization hearings that this resulted in increased entry backlogs in other product lines, with the consequent degradation of the appraisement function and service to importers in these other lines.

While the TPM is not presently in effect, the data collection capability of Customs must remain in place should it be reinstated at some future point. The entire experience points to the need for adequate Customs resources so that the Service will have the necessary flexibility to meet new responsibilities without detracting from other important missions.

5. Serving a Growing Domestic Tourism Industry

One of the major factors affecting Customs resource needs is our national policy of encouraging foreign visitors to this country. This has led in recent years to the rapid growth of passenger arrivals at our air, land, and sea ports, visibly taxing Customs processing capabilities. Moreover, as many of our cities and regions seek to participate in the growing tourist trade by becoming international gateways, the inability to provide adequate Customs personnel to staff these new facilities is becoming painfully apparent.

This country has too much to lose by allowing Customs to become a hindrance to the further development of our expanding tourism industry. Foreign visitors are now coming to the U.S. at the rate of 22 million a year, about 8 million from overseas. In 1980, these visitors spent an estimated $12 billion while in the United States, producing approximately $1.4 billion in Federal, state and local tax revenues. Moreover, between 1970 and 1979 these expenditures grew by more than 250 percent, well ahead of other measures of economic activity.

After the top three American exports --chemicals, motor vehicles and parts, and grain and cereal preparations-- tourism brings in the most revenue among U.S. export earnings.

The domestic travel and tourism industry is now the third largest industry in the United States, employing more than 6 million Americans and producing more than $118 billion in annual sales. Commerce Department statistics show that more than a million establishments benefit directly from foreign tourists' spending in this country. More than 95,000 U.S. jobs were directly supported by foreign visitors' food purchases alone in 1978.

Regionally, the New England states aim for the Canadian market, while the Southwest aims for the Mexican market. Canada and Mexico have consistently accounted for the largest number of foreign tourists entering our country. According to the U.S. Chamber of Commerce, Miami and St. Louis have launched extensive efforts to attract British visitors. Tourists from West Germany, Japan, and France are also being eagerly sought by our aerial gateways.

In 1980, for the first time, the number of foreign visitors from overseas (more than 8.1 million) outnumbered the number of Americans who visited overseas. This trend has continued. Along with the rapid growth of international passenger arrivals at our airports (approximately 12 percent a year), the increasing proportion of aliens is presenting a new challenge to Customs Inspectors responsible for processing these visitors. At the same time, the advent of wide-body aircraft has led to frequent congestion and overtaxing of facilities. As is well-known, even greater delays within the inspectional facility are routine, caused mainly by the shortage of Inspectors.

At the request of the Trade Subcommittee, Customs, INS and the Department of Agriculture have been testing at Miami and Los Angeles a new Federal inspection procedure known as ASIST, the Accelerated Special Inspection System Test. We understand that a report evaluating the new procedure from the standpoint of both passenger facilitation and enforcement is due to be submitted to the Subcommittee in the near future. Inasmuch as the report has not been completed, we are unable to comment on the ASIST program at the present time.

Nevertheless, recent experience makes clear that if the U.S. is to exploit its natural advantages as a mecca for foreign visitors, the Customs Service must be provided with an adequate number of Inspectors to reduce present congestion and accommodate the expected growth in future traffic. The Air Transport Association has estimated that an additional 230 Inspectors are needed immediately at our airports. Many of our land border ports are also experiencing lines 2-3 hours long, e.g., San Ysidro and Niagra Falls, and this imposes an additional requirement.

We strongly urge the Subcommittee to consider the needs and the potential of the domestic tourism industry in weighing the benefits of providing the Customs Service with adequate resources. Certainly the advantages to the nation's economy and balance of payments, plus the additional tax receipts accruing from tourist expenditures, would far outweigh the cost of several hundred additional Inspectors.

6. Safeguarding American Agriculture

One of the principal missions of the Customs Service is to prevent the introduction into this country of foreign plant and animal pests that would endanger American agriculture. The paramount role of agriculture in the U.S. economy, and the large costs of eradication should an outbreak occur, argue for an adequate level of baggage inspection at our ports of entry.

For the most part, the U.S. Customs Service performs primary inspection of international air passengers. Based on the declaration form, the finding of agricultural items, and in some cases, a passenger profile provided by the Animal and Plant Health Inspection Service of the U.S. Department of Agriculture, the Customs Inspector may refer the passenger to a Plant Protection and Quarantine Officer for secondary agricultural inspection.

Last year, before the Mediterranean fruit fly became a household word, we pointed to the fact that the Agriculture Department had exhausted its contingency funds for combatting this pest which feeds on over 800 different fruits. Now that we are over last year's crisis in California and Florida, it is sobering to note that a general infestation of the Medfly in the United States would cost an estimated $200-250 million annually in losses to agriculture.

The U.S. has not had an outbreak of Foot and Mouth Disease since 1929, and it is estimated by the Department of Agriculture that it would have a $10 billion impact on the livestock industry during the first year if introduced into this country today. African Swine Fever is another animal disease which may enter the U.S. through pork products contained in passenger baggage or airline waste. There is no known treatment for this disease, and the initial economic impact in the U.S. would be $2 billion in losses the first year.

The soil from plants carried by an unwary traveler serves as a natural carrier for nematodes and many other pests. Potential crop losses could increase 5-10 percent if additional nematodes are introduced into this country, according to the U.S. Department of Agriculture.

Passenger-carried meat and meat products also pose a serious threat. In FY 1980, 123,128 individual lots of meat and meat products totaling 305,635 pounds were confiscated from arriving air travelers. All of these products represented a potential source of animal disease that could severely damage our livestock industry.

In the past, this Subcommittee has taken a firm stand on the importance of adequate agricultural inspection as a safeguard that must not be relaxed. This position is fully documented in last year's report on the Customs authorization bill. We urge the Subcommittee to persevere in this course, and to consider the paramount requirements of American agriculture in its deliberations on the adequacy of Customs resources.

7. Preventing the Export of Critical Technology

One of the largest areas of Customs staffing deficiency is the outbound clearance of exports. Such capability is virtually non-existent. Faced with a rising tide of imports, the resources for monitoring exports have gradually been withdrawn. Even spot-checks of outbound shipments are seldom made.

The costs of such negligence are now being driven home by the discovery in recent months of a pervasive pattern of activity by Soviet agents to pry away the secrets of American high technology by offering bribes and huge sums of money to obtain products on our export control lists. Their targets are lasers, fiber optics, computers, microelectronic devices, and telecommunications equipment.

In 1980, the president of Spawr Optical was convicted of shipping about 50 high-energy laser mirrors to a laser research laboratory in Moscow. After being denied an export license for shipment of the mirrors, Spawr deliberately understated their value to the Customs Service and made the delivery through Swiss and West German intermediaries. Intelligence sources told the court that the mirrors may have been used in tests of Soviet anti-satellite weapons.

Two years ago, two top officials of a California computer firm were convicted of shipping more than $1 million worth of computer machinery to the Soviet Union without a license. The computer machinery was crated with air conditioners and washing machines and sent through Germany and the Netherlands to Moscow.

According to an article in The Washington Post last spring, the FBI has investigated at least 30 cases in which the Soviets offered bribes to buy lasers and fiber optics that were on the export control list. Lasers have military uses in space. Fiber optics can be used to make small, secret communications devices. FBI Director William H. Webster is quoted as telling The Washington Post:

> "The Russian targets are no longer weapons and strategy. The emphasis is now on technology, and they will go to any lengths to get it."

After investigating the effectiveness of U.S. export controls last year, The New York Times concluded:

> "Despite the growing concern of government officials that sophisticated American technology and arms are being illegally shipped to unfriendly nations, including the Soviet Union, the Federal agencies charged with administering the export control laws remain understaffed and their enforcement efforts are spotty."

> "According to Reagan Administration officials, the Government makes relatively few inspections of outbound shipments, prosecutions are rare, penalties are comparatively light and there is a backlog of unfinished investigations."

In the same article, a Customs official is quoted as stating that the Service would need 565 additional Inspectors for a nationwide inspection program. The offical noted that, "As a matter of routine, we don't inspect outbound shipments." He said that Customs did some spot-checking and planned to do more, but added that it was relatively easy to export items illegally. Lastly, officials of both the Commerce and State Department's export control offices were reported as agreeing that an intensive program of spot inspections would serve as a serious deterrent.

Because of its physical presence at the nation's frontiers, with control over both inbound and outbound shipments, Customs is at the present time the principal export control arm of the Federal government. It enforces two basic laws:

(1) The Arms Export Control Act (22 USC 2778).

This Act concerns the export of arms, ammunition, implements of war, and other military technology. The Office of Munitions Control of the Department of State administers the Act, issues regulations concerning controlled commodities, and grants export licenses. The Customs Service is responsible for enforcing the Act, and investigating violations.

(2) The Export Administration Act of 1979 (50 USC 2401)

This Act concerns products and technologies which may have both peaceful and military applications, whose export is controlled for reasons of national security, foreign policy, or short supply. The Act is administered by the Office of Export Administration of the Department of Commerce, which issues lists of controlled items and export licenses. Customs participates in export inspections and investigations of violations of the Act.

Recently, because of widespread interest and the personal intervention of the President on behalf of stricter enforcement, Customs launched "Operation Exodus," an experimental export enforcement program, at 10 major ports of entry. At each port, one or more three-man teams, consisting of an Inspector, a Customs Patrol Officer, and a Special Agent will conduct spot-checks of outbound shipments and follow up investigative leads. The teams will be supported by designated Import Specialists and Regulatory Auditors. Altogether, 34 teams will be operational at the 10 ports during 1982. The program will last 9 months and then be evaluated.

It is symptomatic of the shortage of resources in Customs that no more than 130 personnel in toto will be assigned to this vital program. This is another example of a failure to provide the resources required for a new mission. The inevitable consequence is that Customs will have to divert resources from other priority areas. The effect on those areas is the same as a cut in staff. In this case, 35 Inspectors, 34 Customs Patrol Officers, and 10 Import Specialists and Regulatory Auditors will be withdrawn from line functions in order to staff Operation Exodus.

Without a doubt, this is an area that requires serious study by the Subcommittee. We have continually pointed to the deficiency in outbound clearance of both vessels and aircraft as a prime example of reduced enforcement occasioned by the lack of adequate resources. Here again, the cost of providing the necessary resources is far outweighed by the present cost to the nation of illegal exports of critical technology.

PROGRAM, BUDGET, AND POLICY ISSUES

Let us turn now to a discussion of the workload and resources in each of Customs' functional areas: Inspection and Control, Tariff and Trade, and Tactical Interdiction. We will also focus on the major issues that deserve consideration by the Subcommittee.

Inspection and Control

There is a large and growing workload/resource imbalance in the Inspection and Control function of Customs, due to the continued growth of international trade and tourism, and personnel cutbacks. Some significant indications of the Customs workload in this area are:

- * U.S. merchandise imports, by volume, have been growing at an 8 percent annual rate during the past decade, and are projected by Customs to continue growing at this rate through 1985.
- * Commercial airline passenger arrivals from abroad have been growing at a 12 percent annual rate in recent years, and increasing by about 3 million a year.
- * Total persons arriving from abroad at our air, sea, and land ports of entry will increase by 13.5 million between 1982 and 1983.
- * Cargo imports by air have been growing at a 14 percent rate in recent years, and are projected to increase to 1.5 million tons in 1983, double the level in 1978.

Customs resources in the Inspection and Control area are indicated in Table 1, which shows the trend in the number of Inspectors compared to Customs total employment since 1972. While there was an increase of 200 Inspectors during FY 1981 and 1982, this gain would be totally eliminated by the reduction of 400 Inspectors proposed by the Administration. This would reduce Customs to the number of Inspectors it had in 1974, despite a 72 percent growth in merchandise imports and a 17 million increase in air passenger arrivals since that year.

The workload/resources imbalance is further illustrated by Exhibit I, appended to our testimony. This charts the actual and projected workload to 1985, and compares this workload to Customs outlays in constant dollars. The results are striking. All the workload trends are rising. However, Customs resources, in terms of real outlays, stay at about the 1975 level. This fact is further confirmed by the Inspector data in Table 1, which shows no increase in the number of Inspectors since 1975.

These few facts clearly demonstrate the crux of the problem confronting the Customs inspectional force today. Workload continues to rise, yet the number of Inspectors remains stable. As a result of increased demands from importers and carriers, the static work force is required to put in longer hours on the job. Overtime mounts and becomes the principal resource utilized to accomodate the growing demand for service.

As the workload continues to outstrip the capacity of the Inspectional force, the point is ultimately reached where concessions are made in the form of reduced enforcement. Sadly, countless signs of this erosion abound in the Service today. Some prominent examples are:

- Customs has been inspecting less than 1 percent of all containerized shipments, despite clear evidence of increased drug seizures and revenues accruing from improved enforcement. Last year, the number of containers inspected fell to 0.3 percent of the total number imported.

- At many coastal ports, private vessels such as boats and yachts arriving from foreign destinations have been placed on a virtual honor system with regard to Customs inspection. Owners are permitted to notify Customs telephonically within 24 hours of arrival, and the formalities usually consist of negative replies to a few questions. Customs attempts to keep this system functioning through spot-checks, but only a tiny fraction of arrivals are even inspected.

- Customs has gone to a system of general supervision of vessel unloading. Instead of one Inspector assigned to a ship, the Inspector may now perform inspections at docks miles apart, and must leave one site for another even though his or her presence would be a deterrent to smuggling at the initial location.

- At many ports, Customs lacks the resources to exercise proper supervision over the gauging of tankers by representatives of the oil companies. Consequently, Customs' role as the only independent source of crude oil and petroleum product imports information, essential to the formulation of energy policy, is in jeopardy.

- Customs lacks the resources for an effective program of outbound clearance of ships and aircraft, and, as a result, controls over the export of critical technology are virtually non-existent.

- In outlying areas, Customs lacks the resources needed to ensure the physical security of the Inspectors themselves. It is not unusual for Inspectors at many land border ports, or on "graveyard shift," to work alone. The lone Inspector is exposed to encounters with narcotics traffickers, fugitives, terrorists and other criminals. Help in many instances is two or more hours away. For these reasons, we strongly believe that Inspectors, for their own security, should be teamed on isolated assignments.

On May 25, 1979 in Lynden, Washington, a lone Customs Inspector on duty was shot and killed by an escaped felon who was entering the

U.S. from Canada. Despite repeated requests from this union and members of Congress from the state of Washington, Customs to this day has not assigned sufficient Inspectors to permit greater security at this port of entry.

Finally, we have previously called attention to the continued shortage of Inspectors at our airports. The need for Inspectors to process passenger means that less attention can be given to cargo processing, with a consequent increase in opportunities for smuggling in this area.

Mr. Chairman, these conditions are symptomatic of a general breakdown in enforcement which our union, as the representative of U.S. Customs Inspectors, has been emphasizing since 1978. The unvarnished truth is that there are wide areas of minimal enforcement or non-enforcement of the Customs laws today, and more are emerging. Surely it is a Congressional responsibility to provide the dedicated men and women of the Customs Service with the resources they need to do the job.

Last year, the Trade Subcommittee directed Customs, in conjunction with the INS and the Department of Agriculture, to test new methods of passenger processing at our airports, with the objective of minimizing delays to travelers, while maintaining enforcement. In compliance with this directive Customs initiated ASIST, the Accelerated Specialized Inspection System Test, at the Los Angeles and Miami airports. It is our understanding that the results of this test are still being evaluated. Nonetheless, we have been notified by Customs that it intends to continue ASIST at those airports indefinitely.

This decision seems to indicate that Customs is sufficiently satisfied with the results to give its blessing to yet another inspection technique. Or this may simply reflect a decision by Customs management to bow to the inevitable. Whatever the case may be, large questions have been left unanswered. What was the impact of the test on enforcement? Have the Department of Agriculture's concerns over the inspection of baggage been allayed? Has the General Accounting Office (GAO) participated in the evaluation, as this Subcommittee requested? If so, where is the GAO's assessment of the scientific validity of the test?

We can assure the Subcommittee that, while we have always been in favor of innovation in the Service, we will not endorse a program that is simply a rationalization for lax enforcement. We are quite aware of the pressures to expedite the flow of passengers at our airports. We are also aware of the danger, in this environment, of selecting a system that compromises enforcement for the sake of facilitation, and we will never be a party to it. We intend to give the final test report the utmost scrutiny. The best service that Customs can perform at this point is to make the interim report on this project available to the Subcommittee and the public, while expediting preparation of the final report.

Let me turn now to the subject of cargo processing, which is another area where Customs appears to be moving headlong toward nationwide adoption of a new inspection system without a proper evaluation of the costs and benefits including the impact on enforcement. During FY 1980, Customs tested a prototype version of a new cargo clearance system for use at seaports, known as ACCEPT, or Automated Cargo Clearance and Enforcement Processing Test. The results indicated that the program was a failure. The system was restructured and tested during FY 1981 at the Port of New Orleans. Now we are advised in the Customs budget documents that ACCEPT is being programmed for adoption nationwide.

The Customs Service has issued a report on the New Orleans test which leaves many fundamental questions unanswered. The document cites numerous statistical advantages associated with the use of ACCEPT, but fails to explain fully how these were realized. We do not believe that these inadequately substantiated findings alone justify adoption of the ACCEPT program nationwide. The Office of Inspection in Customs is now developing a plan to implement the system on a national basis. We believe that this Subcommittee as well as members of the public should be given an adequate opportunity to study and comment on such a major change in the way cargo is processed before it is put into effect. Until then, the program should not be adopted, particularly since the initial results of the test were so negative. The idea behind ACCEPT is simple. Since Customs can only make a limited number of inspections, it should concentrate these on "high risk" shipments where the payoff is potentially greater for the inspectional resources expended. The problem is: How do you determine which are the high risk shipments and who are the high risk importers? What are the criteria? Country of origin, for example, would have to be considered. Any shipment from Columbia ought to be suspect as to drugs whether an importer has a good record or a bad one or whether the port of entry was New Orleans or Detroit.

Moreover, once it becomes known that certain shipments and certain importers are receiving minimal inspection, what is the plan for dealing with the infinite ingenuity of the smuggler who attempts to beat the system? What about shipments that are potentially harmful once they enter the stream of commerce, such as adulterated foodstuffs and improperly labeled medicines? When Inspectors were taking samples, such shipments could be stopped at the port. Now the full burden will fall upon the Import Specialist, but by the time he or she gets the documents it is too late -- the merchandise is on sale in Kalamazoo. How will ACCEPT protect the public health and safety?

We strongly urge the Subcommittee to bar any funds for the implementation of this program until a complete report is presented to this panel and you are fully satisfied that this program will not have the profound adverse impact on enforcement that we fear. The Subcommittee should not simply accept unsubstantiated assertions that because this system is "automated" and "computerized," it is a truly effective enforcement tool, and not a scheme for minimal enforcement or non-enforcement through exclusion from inspection of many goods imported into this country. We will be pleased to assist this Subcommittee in any way possible with your review of the ACCEPT program.

In this connection, we would like to call to the Subcommittee's attention a regulation issued by Customs and published in the Federal Register of September 10, 1981. This regulation has the effect of waiving Section 499 of the Tariff Act of 1930 which requires the inspection of not less than one package of every invoice and not less than one of every 10 packages of imported merchandise. The law specifically authorizes the Secretary of the Treasury to provide, by regulation, that a lesser number of packages may be examined when, in his opinion, the examination of a lesser proportion will amply protect the revenue.

The intent of this provision was to allow the reduction, at individual ports, of the number of inspections of specified goods or classes of merchandise. The authority granted to the Secretary clearly cannot be utilized to totally abrogate the standard for inspection (one package out of 10) contained in the law.

Yet this is precisely what Customs has done in a most blatant manner. This new regulation allows the release of merchandise with no inspection at all, contrary to the express provisions of the Tariff Act of 1930. Under this Act, the Secretary of the Treasury is authorized to permit reduced inspection, but cannot simply waive all inspection of imported merchandise. Such an action is contrary to law and sensible policy.

In reviewing projects like ACCEPT, this new regulation is very enlightening. Apparently, the thinking of some Customs officials is that, indeed, entire commodity lines may be safely excluded from inspection. In our opinion, the only word that can describe such a mentality is non-enforcement.

We urge the Subcommittee to thoroughly review this regulation, and to assess what would happen to our entire system of import controls were the requirement for inspection abolished. The Tariff Act of 1930 has protected the health and safety of the American people for over 50 years. The standards it contains are sound. We request the Subcommittee to ensure that no appropriated funds are used to implement this regulation until Congress has the opportunity to deliberate whether such a change in the 1930 Tariff Act is sound public policy.

Customs is also considering the elimination of its warehouse program. Under this program, Customs employees are assigned to bonded warehouses on a reimbursable basis in order to provide for the orderly release of in-bond merchandise into the stream of commerce. The opportunity for physical inspection of a shipment is greatest at the warehouse site. Indeed, with over 70 percent of the nation's seaborne cargo now arriving in containers which proceed directly under bond to warehouses or foreign trade zones inland, these locations are the most effective from the standpoint of physical inspection and control.

Nevertheless, it is our understanding that Customs is now planning to seek the removal of Customs employees from bonded warehouses and turn the release of merchandise over to warehouse management. We trust the Subcommittee will wish to inquire about this plan, and see that it receives a full public airing.

We would like to call attention to the fact that, in its report on the authorization of appropriations for FY 1981, the Trade Subcommittee called upon Customs to conduct an in-depth national audit of bonded warehouses. The Subcommittee report noted "incredible" abuses in the warehouse program. We do not know whether such an audit has been completed, but certainly its finding would have a bearing upon any review of Customs plans for terminating its presence at the warehouses.

Let us turn now to the subject of Inspectional overtime. It is our belief that there is an increasing awareness in the Congress that the overtime earnings of Customs Inspectors are a reflection of the the enormous demands made upon these men and women to process a steadily growing workload. Given its limited work force, the Customs Service has since 1975 been using overtime funds as a resource to meet the increasing demand for clearance of passengers and cargo. The overtime earnings of Inspectors are just compensation for long and irregular hours, and physically demanding and hazardous duties.

Customs Inspectors must be available at all hours to assist the traveling and importing public. Overtime assignments are a public service required of our Inspectors --a duty they cannot refuse. An Inspector with overtime earnings of $15,000-$20,000 a year works, on the average, 62 hours a week 52 weeks a year for the convenience of the public and to ensure enforcement of our Customs laws.

-- It is unfair when some members of Congress seem to forget that Inspectors are husbands and fathers, wives and mothers, and are entitled to lives of their own.

-- It is unfair when Customs Inspectors are the only group of Federal employees singled out for an arbitrary cap on their earnings.

The Ways and Means Committee has demonstrated its sensitivity to the problems encountered by Inspectors by removing the overtime cap on their earnings.

We believe this Subcommittee should do the same for the following reasons:

* The overtime cap is interfering with accomplishment of the Customs mission. Inspectors who exceed the cap are not available for overtime assignments, and some services are not being provided on overtime even though the services are reimbursable, e.g., charter aircratf clearance, general aviation inspections, release of air freight, and ship clearance.

* The cap is preventing the proper allocation of resources among ports experiencing different rates of growth. Instead of workload being processed by local Inspectors on overtime, Inspectors have been transferred from other ports at government expense to do the job.

* The administration of the overtime cap is costing Customs over $500,000 annually.

* Customs has itself called for removal of the cap. Last year, Customs testified:

"In fiscal year 1980, the year the overtime cap was imposed, only two Customs employees exceeded the $20,000 cap. However, this was only accomplished at increased expense to the government, working lower graded employees an excessive number of hours, and by changing employees work locations or assignments. We have implemented many new procedures and instituted controls to eliminate overtime abuse and to comply with the $20,000 overtime cap. We feel that we have been very successful in this endeavor. In fiscal year 1981, we are finding it exceedingly difficult, with the increasing workload and the decreasing number of inspectional staff, to operate within the $20,000 limitation. Our ability to continue to provide the services required of us is being jeopardized by the constraint placed upon us to operate within this limitation. It may be shortsighted to continue the overtime cap since additional costs would be incurred to shift staff in order to operate within the overtime constraint.

We recommend that the overtime cap be removed entirely. We believe that by continuing to exercise constraint and maintaining the overtime controls that we've established that overtime will be controlled. Eliminating the overtime cap will open alternative solutions to problems as they arise regarding increased workload and decreasing staff."

* The cap is severely affecting employee morale. It has required the equalization of overtime earnings among employees, requiring lower-graded workers to work more overtime, and prohibiting employees who would be willing to work longer hours from doing so. It is important to morale, and a more efficient and productive workplace, that individual employee motivations be taken into account in making overtime assignments. Employees willing and able to work more overtime should be permitted to do so, as this minimizes the burden of forced overtime assignments on their fellow workers, and allows trade-offs on special occasions such as weddings and other family events. Some persons prefer more work, others prefer more leisure. Morale at the workplace is fostered by allowing individual preferences to play a greater role in overtime assignments, not by enforced equalization of earnings.

We would like to call to the attention of the Subcommittee the fact that last year, at our request, the Customs Service conducted a statistical study of Inspectional overtime. This study assembled data from 40 ports for one week in each quarter of Fiscal Year 1980. The ports selected were the largest seaports, airports, and land border ports representing 80 percent of the total inspectional workload and 75 percent of inspectional staffing. These ports accounted for 72 percent of total reimbursable overtime earned. The specific overtime information was obtained from nearly 66,000 records of assignments for the 4-week sample.

The findings of this study are so significant with respect to the rate of Customs inspectional overtime pay that we would like to quote them:

"The national average earnings per assignment and hourly rate based on a GS-9 Step 5 (the average inspector grade level) are:

(1) Sunday = $158.24 (2.1 times the average hourly rate)
(2) Saturday = $87.23 (2.4 times the average hourly rate)
(3) Weekday (Monday - Friday) = $78.63 (2.4 times the average hourly rate)
(4) Holiday = No figures (Insufficient data).

The average earnings are indicative of the double-time rate of compensation as provided in the Act of 1911. The rate on a Saturday or weekday of 2.4 times the hourly rate of a GS-9/5 inspectors is higher due to the "roll back" provisions of the Act which provide special compensation to an employee who has left the work site and is called back in to work."

One other significant finding of the study relates to the amount of time worked by Customs Inspectors on Sundays. This, as you know, has been the subject of much demagoguery by ill-informed individuals who have alleged that Customs Inspectors are reporting for work for an hour or less and receiving two days pay. The facts, confirmed by the study, are that the average Inspector works 7 hours on Sunday assignments, and an average of 8 hours if holidays are included in this figure.

The findings of this study have an especially important bearing on a bill, introduced at the request of the Administration, that would amend the Act of 1911 to reduce the rate of overtime pay for inspectional duties to time and one-half. According to the Office of Management and Budget (OMB), this would save $4 million in public funds. Much of the support for the bill is based on the misconception that Customs Inspectors are making triple and quadruple time, and even more, in performing overtime assignments.

Well, we can tell the Subcommittee that the facts are now avilable. They show that Inspectors are earning, on the average, 2.1 times the regular rate of pay on Sundays, and 2.4 times the regular rate on the other days of the week. The Customs study attributes the 2.4 rate of pay to the call-back of Inspectors who have left the work site. Such call-backs frequently occur at night and at irregular hours, taking a physical toll on the Inspector. In addition, there is often a good deal of uncompensated waiting time that Inspectors must put in, when aircraft or ships are delayed in arriving.

We are absolutely convinced that the frequent call-backs, irregular hours, and hazardous and demanding nature of an Inspector's duties fully justify the present rates of overtime pay. Moreover, these rates are not out of line with the prevailing private sector practice, which established double time premiums for call-back and night work, and where the prevailing practice is triple time for Sunday overtime and double time and one-half for holiday work. This information is based upon a survey of private sector premium pay conducted for the Office of Personnel Management's Premium Pay Task Force.

We urge the Subcommittee to reject the call for a change in the rates of overtime compensation paid to Inspectors. It would not only be grossly unfair to the Inspectors, but would seriously reduce the incentive to continue to work long hours at a time when the Service is stretched thin and lacks adequate staff.

Tariff and Trade

The Tariff and Trade functions of Customs encompass the collection of duties and the administration of quotas and other trade programs. The backbone of this function consists of approximately 1,100 Import Specialists whose expertise permits accurate classification of imports under the Tariff Schedules, and proper appraisement or valuation for duty assessment purposes. By virtue of many years of service, intimate familiarity with the importing community, product lines, and Customs Court rulings, as well as the technical aspects of their commodity specialty, Import Specialists have a well-deserved reputation for their expertise. Some are world-renowned in their fields, such as ceramics and antiques.

Import Specialists are in day-to-day contact with the importing community, who find their knowledge invaluable in ascertaining beforehand how a particular importation will be treated, and in forestalling costly errors and disputes. During Fiscal Year 1981, Import Specialists made over 8,000 visits to importers' premises. When one considers that there are 10,000 categories in the Tariff Schedules, that products frequently fit more than one classification, and that proper classification can make the difference between duty-free entry or a 70 percent tariff, the value of this service to the importing community can be understood.

While importers consider this to be a very valuable service to their business, it more importantly allows a tremendous savings to Customs by eliminating the necessity for many rejected entries, time-consuming post-entry work, and entry backlogs resulting from errors. A few hours at the importer's premises, viewing samples and establishing classifications, can save untold staff hours by permitting Customs to liquidate most entries upon receipt.

There is a large and growing imbalance between workload and resources in the Tariff and Trade activities of Customs. As shown in Table 2, the 1,150 Import Specialists on board today are fewer than the number available during 1974. Yet there will be over 5 million entries to be processed in FY 1983, a 60 percent increase over 1974. This means that workload, measured in terms of the number of entries per Import Specialist, has been increasing at an annual rate of over

9 percent a year since 1974. Even allowing for a significant growth in productivity, which has increased historically at a 4.3 percent annual rate, it is clear that Customs has been unable to keep pace with the growing workload during the past decade.

A GAO report, "Assurance Needed That Import Classifications Are Accurate," issued on April 23, 1981 has documented the deterioration resulting from inadequate staff. The report states that:

> "Customs Service import specialists have insufficient time and means to adequately verify Tariff Schedule classifications assigned by importers or their brokers to billions of dollars worth of foreign products entering the United States annually. Proper classification essential for determining the appropriate import duty, treating importers consistently, and compiling import data for formulating trade policies.
>
> Verification is hindered, in part, by a cursory entry-by entry review of entries, a relatively large number of incorrect entry documents which are rejected and must be resubmitted, and the lack of a quality assurance program.
>
> The Service's problems are intensified by a relatively unchanging work force and a sharply increased workload."

The report also notes that steps essential to confirming import classifications --physical examination of the articles and, where appropriate, laboratory analysis coupled with application of legal principles and prior rulings-- are often not performed. GAO found that, in a random sample of entries in three Customs field offices, up to 74 percent of product classifications were accepted solely on the basis of reviews of entry documents. Of products susceptible to laboratory analysis, only 13 of 242, or 5 percent were analyzed. From 75 to 85 percent of the products were probably never physically examined, according to the report.

In FY 1983, Customs estimates it will collect over $11 billion in import duties, or $18 for every dollar spent by the Service. Clearly, hiring additional Import Specialists would not only help correct present deficiencies, but would bring in additional revenue to the Federal government. Yet the Administration's response to this problem is to propose a further reduction in the number of Import Specialists, from 1150 in FY 1982 to 1050 in FY 1983.

Import Specialists are a highly specialized group of whom the Federal government should be proud. They make our trade programs run. They assist the importing community. They make final determinations as to the admissibility of merchandise, and their expertise is thus absolutely essential to protect the national health and safety by barring entry of harmful foodstuffs, medicines, and chemicals.

The nation needs a firm commitment to increase the number of these specialized employees to the level required to meet the growing demands of trade and a rapidly expanding importing community. Based on sheer volume of entries, a minimum of 1,400 Import Specialists are required. This number must be further augmented to provide the resources needed for special trade programs, such as the General System of Preferences, anti-dumping and countervailing duties, trigger price mechanism, orderly marketing agreements, and export controls on critical technology.

Our recommendations for an alternative budget that meets Customs' most critical needs are presented in Tables 3 and 4, appended to this statement, and will be discussed later in our testimony. We strongly urge the Subcommittee to provide the additional Import Specialists and other resources required for the sound administration of our international trade.

We would like to turn now to certain actions taken by Customs management during the past year that are bound to exacerbate an already difficult situation in the Tariff and Trade area.

Recently, Customs notified us of its decision to reduce from 69 to approximately 35 the number of entry processing locations in the country, where Import Specialists are assigned. This plan, known as centralization of appraisement, has presently been delegated to the Regional Commissioners for implementation. Many members of Congress are fully aware of this proposal because of the outcry it has produced from the importing community and municipal officials nationwide.

Amazingly, Customs has provided no rationale for this plan, no cost-benefit analysis of the supposed advantages, not even the economic impact statements on the affected communities, required by executive order. We expect that the Subcommittee will be seeking the answer to these and other questions.

In view of the increased growth of the nation's foreign trade, the expanding number of foreign trade zones, the growing number of cities seeking port of entry status, and the obvious advantages of continuous Import Specialist contact with the importing community, one would have thought that Customs management would have favored expanding the number of entry processing locations. As the Ad Hoc Committee on International Trade of the City of Kansas City has told the Congress:

> "Instead of removing import specialist expertise from areas where numerous importers are located, Customs should be developing it and taking advantage of this expertise. Programs such as importer inquiries and the import specialist

commodity seminars should be strengthened and expanded. This is the way to meet the needs of the future."

Kansas City is a good example of the impact of the centralization plan. It has a rapidly growing port and foreign trade zone. There are 770 importing firms that use these facilities. Yet, under the Customs plan, no Import Specialists would be assigned to Kansas City and entries would have to be processed by mail at another port.

We have informed the Customs Service and many members of Congress of our vigorous opposition to the centralization of apparaisement concept based largely upon the following reasons:

* It would deprive the business community of an extremely valuable service, and cost many firms thousands of dollars.

* It would hinder the development of foreign trade in many municipalities, and lead to lost revenue and business.

* It would break down the intimate contact with the importing community that is the source of the Import Specialist's expertise.

* It would lead to more errors in entry documents, more rejected entries, more contested classifications and valuations, and larger entry backlogs.

* It would break down the Inspector/Import Specialist team that is vital to the smooth operation of our ports of entry. The range of commodities that an Inspector must examine is too great to acquire the expertise needed for a determination of admissibility. Consequently, the Inspector calls upon the Import Specialist, who frequently joins him in the inspection. Such teamwork is the bedrock of the entire system. It has, for example, prevented botulism-contaminated foodstuffs from entering the stream of commerce. By removing the Import Specialist from close contact with Inspectors, there is greater likelihood of a shipment being released before its inadmissibility is discovered.

* It would ultimately cost the government billions in lost revenues from entry errors.

We strongly urge the Subcommittee to bar the use of appropriated funds for implementation of this plan. We would go further: we recommend that the Subcommittee report out an authorization bill with a clear statement of policy concerning the desirability of Customs' stationing Import Specialists in localities having significant numbers of importers, including mandatory assignment of a specific number of Import Specialists in proportion to the number of importers.

Finally, we would like to call to the Subcommittee's attention another ill-advised action implemented by Customs management last year. This is a Manual Supplement entitled "Selective Entry Processing Systems-Manual Operation." This Manual Supplement directs that 35 percent of all entries be processed by clerical personnel rather than Import Specialists. Of course, what is not stated is that clerical employees are frequently not available, nor are they able to properly review entry documents in many cases. So the effect of the Manual Supplement is simply to exclude the selected entries from review, which means accepting the importer's declaration as to value and admissibility.

Customs refers to this system as "manual by-pass" of those entries which are to receive a lesser degree of scrutiny. The avowed principle is that Import Specialists should spend more time on the more complex entries, those involving quota merchandise and important U.S. trade programs. We have no quarrel with this principle. It simply states that, given the huge workload, Import Specialists must decide which entries demand attention.

The problem is that Customs management has arbitrarily and without any apparent justification, chosen the figure of 35 percent, as the proportion of entries to be by-passed. No one knows what proportion of "routine" entries can be "safely" by-passed. It probably varies from day-to-day and port-to-port. Whatever it may be, the selection of such entries is best left to the judgement of the Import Specialist. For Customs management to specify 35 percent or any other figure for by-pass is to send the wrong signal to the business community. If interpreted as the number of entries to be let through with only a cursory check by clerical employees or no check at all, it would certainly lead to lost revenue and perhaps admission of unsafe products.

Customs is attempting to use this Manual Supplement to cut the size of workload. A sound principle, selecting and setting priorities for the work, is being twisted into another rationale for non-enforcement.

In its study of Customs classification mentioned earlier, GAO states that high broker error rates in entry documents were a major reason why Import Specialists were not selecting more entries for by-passing. This is confirmed in a Customs survey of rejected entries conducted in May 1980. The survey found that 16 percent of all entries reviewed by Import Specialists were rejected due to errors. Classification errors were the most numerous, amounting to 32 percent, while valuation errors made up another 15 percent. In addition, 549 entries covering quota merchandise were erroneously presented as not subject to quota. In commenting on this finding, the Director of Customs' Office of Trade Operations stated:

> "While this number does not appear to be statistically significant, the unlawful entry of 549 shipments of quota merchandise would have had catastrophic repercussions."

It should also be noted that the correction of these errors by the Import Specialists resulted in the collection of an additional

$53 million in import duties. The significance of this figure is apparent when one considers that the annual salary cost for the entire Import Specialist workforce at that time was $34 million.

We believe that the high error rate in entry documents submitted by brokers and importers makes the mandated by-pass of 35 percent of all entries a foolhardy proposition. Moreover, as we have noted, such a policy will result in lost revenue and illegal or unsafe admissions. It would be far wiser for Customs management to seek the additional resources needed to cope with the mounting workload. As the GAO study indicated, effective selective entry processing systems simply do not exist at the present time. Until they are developed and tested, existing systems should be kept in place and supported.

For the reasons stated above, we recommend that the Subcommittee ensure that no appropriated funds are used for the implementation of this Manual Supplement.

Tactical Interdiction

We would like to touch briefly on the Tactical Interdiction function of the U.S. Customs Service. This important area includes the dedicated men and women of the Customs Patrol who serve on air, land, and sea and whose mission is to interdict the flow of narcotics and contraband at and between our ports of entry.

The Customs Patrol is a small force --1,300 Customs Patrol Officers in all. Nevertheless, during FY 1981, Customs Patrol Officers accounted for 86 percent of the value of all seizures made by Customs. The Customs Air Patrol is doing an enormous job interdicting what this Subcommittee last year called a veritable "Berlin Airlift" of drugs from Latin America to the Southeastern United States. The Customs Land Patrol has been effective against illegal immigration. The Customs Marine Patrol cooperates with the Coast Guard and Navy and other Federal agencies in blocking the use of "mother ships" and other vessels used to bring drugs into the country.

The magnitude of the problem confronting the Air Patrol in the Southeast is graphically illustrated by the Director of the Customs Air Support Program, Robert Asack, who is quoted as telling the Miami News:

> "What we've got is about 150 targets every day coming in, in the radar environment, and they're not talking on radio, they're not displaying a transponder code and they're not on flight plan.

> And they're not being challenged by anybody....
> The only people around to challenge them are us and we can
> only pick six to eight a day to chase."

The fact is that, of 7,000 aerial sorties made by drug traffickers into this country each year, only 1 percent are being successfully interdicted.

In light of this deplorable situation, it is incredible that the Administration proposed a cut of 70 positions and $4 million in Tactical Interdiction for FY 1983. Moreover, there are large and unspecified reductions in procurement in this budget, and only a modest increase in maintenance funds, so it is quite possible that Customs Patrol Officers will be short-changed in other ways.

We ask the Subcommittee to give very serious consideration this year to the priority that should be accorded Customs Tactical Interdiction, in light of the enormous drug and immigration problems facing this country.

The Customs Air Patrol's interdiction effort in Florida presently has an operating capability of 5 days a week, eight hours a day. These operations are staggered for maximum effectiveness throughout the week. Nevertheless, the limited operational capability of the Air Patrol still leaves the odds in favor of the drug runner. By providing 30 additional positions for the Air Patrol, present operational capability could be expanded to seven days a week, 12 hours a day. The scope of the air threat in the Southwestern part of the country warrants such a capability, and we strongly urge the Subcommittee not only to restore the Administration's cut of 70 positions in Tactical Interdiction, but to add an additional 30 staff for the Customs Air Patrol.

We recommend that the Subcommittee confront this situation with a sense of urgency and act favorably upon the following recommendations:

* restoration of the cut imposed by the Administration;

* a substantial increase in the Air, Land, and Marine Patrols;

* procurement of a second air module, such as the one presently deployed in the Southeast (an air module is a resource package consisting of aircraft, radar, and electronic gear);

* additional funds for long deferred maintenance;

* adequate operational funds to sustain a high level of activity.

Alcohol and Tobacco

As the Subcommittee is aware, the Administration has stated its intention to merge into Customs, effective April 1, 1982, the alcohol and tobacco regulatory and revenue collection functions of the Bureau of Alcohol, Tobacco and Firearms (BATF).

If the Administration goes ahead with its plan, we are concerned that the mission being assigned to Customs will not be adequately reflected in the resources being provided by the Administration. These resources have been cut back substantially from the level at which they were sustained in BATF during Fiscal Year 1981. In effect, Customs is being given new responsibilities without the resources needed to carry them out.

Customs has stated in its budget that it will only be able to undertake minimal enforcement of the Federal Alcohol Administration Act. We urge the Subcommittee to consider allocating $11 million in additional resources for proper enforcement of the Act.

The alcohol and tobacco excises to be administered by Customs are estimated to bring in more than $8 billion in Federal revenue. This important revenue source must be protected. We urge the Subcommittee to ensure that sufficient resources are provided for this purpose.

Finally, we must ensure that the merger does not have an adverse impact on Customs' ability to carry out its remaining missions. In this connection, it will be necessary for Congress to provide $22 million in supplemental appropriations for Fiscal Year 1982, requested by the Administration, in order for the merger not to undermine Customs functions. While we do not know what the fate of the supplemental appropriations bill will be this session, we urge the Subcommittee to monitor the progress of this legislation and express its interest in adequate funding for the former BATF functions.

Conclusion: NTEU's Recommendations for an Alternative Budget for the Customs Service

Tables 3 and 4, appended to our testimony, contain our recommendations for an alternative budget that will enable the Customs Service to meet minimum essential requirements in Fiscal Year 1983. High among these requirements are the need for additional Inspector staffing at our ports of entry, and the need for an adequate number of Import Specialists to process a growing volume of imports.

We would like to summarize these recommendations.

First, we recommend an additional 300 Inspectors and $11,553,000 above the level of the FY 1982 continuing resolution. This recommendation entails restoration of the 972 position reduction, and $37,432,000 imposed by the Administration. Consequently, the total additional appropriations in the area of Inspection and Control would be $48,985,000 for Fiscal year 1983.

Second, we recommend an additional 200 Import Specialists and $8,122,000 above the level of the continuing resolution. This entails restoration of 268 positions and $10,883,000 cut by the Administration. Consequently, the total additional funding for FY 1983 would be $19,005,000.

Third, we recommend restoration of the 70 positions cut by the Administration from Customs Tactical Interdiction functions and an additional 30 more staff years to meet the enormous problems that exist in this area. This will prevent a RIF of 100 Customs Patrol Officers. The add-on for this restoration is $3,836,000.

In sum, we urge a restoration of Administration cuts totaling 1,310 positions (in the above functions) and $51,011,000. Going further, we would add 530 positions and $20,815,000 for essential personnel. Thus, our total recommended addition to the Administration's budget request for Fiscal Year 1983 is 1,840 positions and $71,826,000.

Mr. Chairman, we appreciate this opportunity to present our views on the FY 1983 authorization of appropriations for the U.S. Customs Service. We will be pleased to answer any questions or provide any additional information the Subcommittee may request.

Table 1. Number of Customs Inspectors and Total Employment

FY 1972 - 1983

	Total Employment (Average Positions)	Number of Customs Inspectors	Indexes: 1972=100 Total Employment	Customs Inspectors
1972	11,116	3,754	100	100
1973	11,772	3,700	106	99
1974	11,878	4,000	107	106
1975	13,076	4,400	118	117
1976	13,380	4,300	120	114
1977	13,228	4,300	119	114
1978	13,854	4,399	125	117
1979	14,061	4,174	126	111
1980	13,820	4,165	124	111
1981	13,316	4,379		
1982 (Est)	13,200	4,374		
1983 (Est)	11,862	3,996*		

* Includes 300 Inspectors supported by reimbursable program.

Table 2.

U.S. CUSTOMS SERVICE
Formal Entries of Merchandise and Number of Import Specialists
Fiscal Years 1972-1983

Fiscal Year	Number of Import Specialists	Number of Formal Entries of Merchandise	Entries Per Import Specialist	Average Annual Workload* Growth[2]	Required Number of Import Specialists Assuming Productivity Growth of 4.3% Per Year[3]
1972	1174	2,866,000	2,441		1174
1973		3,240,000			
1974	1210	3,206,000	2,650	1956-1974 4.3%	1210
1975		3,015,000		1974-1983 9.4%	
1976		3,264,000			
1977		3,690,000			
1978		4,017,000			
1979	1236	4,384,000	3,547		1361
1980	1219	4,374,000	3,588		1320
1981	1165	4,588,000	3,938		1331
1982 (EST)	1150	4,730,000	4,113		1328
1983 (EST)	1050	5,130,000	4,886		1396

*Workload is measured in number of entries per Import Specialist.

Notes:

1. Department of the Treasury, Justification for Appropriations (Congressional Submission), Fiscal Year 1982.
2. Subcommittee on Trade, Committee on Ways & Means, Background Materials on H.R. 9220, July 14, 1976, p. 39, gives Import Specialist workload in FY 1974 and average annual growth of workload, 1956-1974,
3. Assuming 4.3% productivity growth per annum since 1974, the number of entries each Import Specialist would be capable of handling in 1983 would be 2650 + (2650 x .043x9) = 3676. Dividing this into 5,130,000 entries yields 1396 as the require number of Import Specialists.

Table 3.

U.S. CUSTOMS SERVICE BUDGET

FY 1983

ADMINISTRATION REDUCTION FROM 1982 AND NTEU ALTERNATIVE

STAFF YEARS

	ADMINISTRATION REDUCTION	NTEU ALTERNATIVE	TOTAL NTEU ADD - ON
INSPECTION & CONTROL	-972	+300	+1272
TARIFF & TRADE	-268	+200	+468
TACTICAL INTERDICTION	- 70	+ 30	+100
TOTAL	-1310	+530	+1840

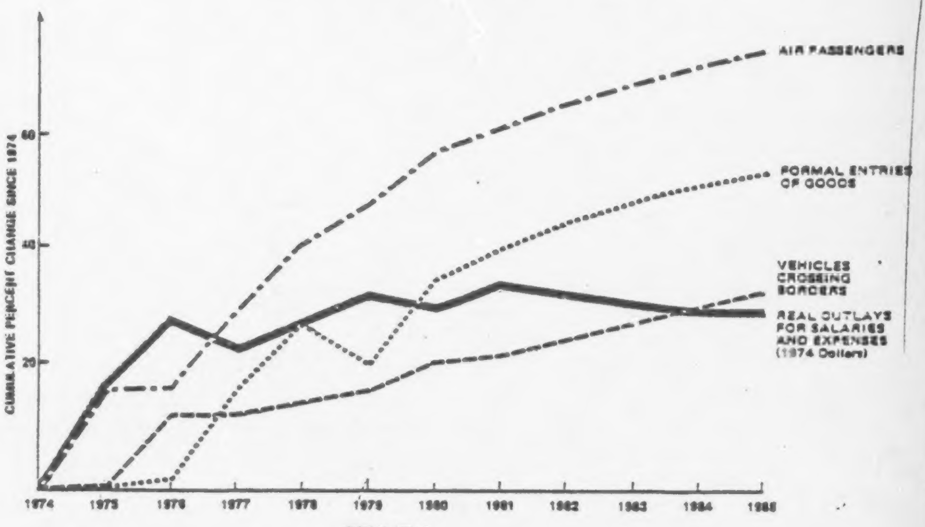
APPROPRIATIONS
(THOUSANDS OF DOLLARS)

	ADMINISTRATION REDUCTION	NTEU ALTERNATIVE	TOTAL NTEU ADD - ON
INSPECTION & CONTROL	-37,432	+11,553	+48,985
TARIFF & TRADE	-10,883	+ 8,122	+19,005
TACTICAL INTERDICTION	- 2,696	+ 1,140	+ 3,836
TOTAL	-51,011	+20,815	+71,826

EXECUTIVE SUMMARY

EXHIBIT I

CUSTOMS WORKLOAD COMPARED TO REAL SALARY AND EXPENSE OUTLAYS (1974-1985)



* Trend projection

Table 4

U.S. CUSTOMS SERVICE RESOURCES AND WORKLOAD, FY '83 ADMINISTRATION'S BUDGET REQUEST AND NTEU ALTERNATIVE

1. U.S. CUSTOMS SERVICE		FY '81	FY '82	FY '83	DIFF FY '82-83
STAFF-YEARS	A. Admin. Request(TL)	13,316	13,560	12,581	- 979
	ATF	-0-	360	719	+ 359
	Customs (-ATF)	13,316	13,200	11,862	- 1338
	B. NTEU Alt. (TOTAL)	13,316	13,760	14,421	+ 689
	ATF	-0-	360	719	+ 359
	Customs (-ATF)	13,316	13,400	13,702	+ 330
APPROPRIATIONS (in thousands of dollars)					
	A. Admin. Request	498,468	508,984*	530,524	+21,540
	ATF	-0-	15,241	31,464	+16,223
	Customs (-ATF)	498,468	493,743	499,060	+ 5,317
	B. NTEU Alt.	498,468	519,384	602,350	+82,966
	ATF	-0-	15,241	31,464	+16,223
	Customs (-ATF)	498,468	504,143	570,886	+66,743
2. INSPECTORS					
A. STAFF-YEARS					
	(1) Admin. Request	4,379	4,374	3,696	- 678
	(2) NTEU Alt.	4,379	4,524	4,824	+ 300
B. AIR PASSENGER ARRIVALS (IN THOUSANDS)		24,187	27,089	30,340	+ 3,251
C. TOTAL PERSONS ARRIVING FROM FOREIGN COUNTRIES (IN THOUSANDS)		314,282	318,900	332,400	+13,500
3. IMPORT SPECIALISTS		FY '81	FY '82	FY '83	DIFF (82-83)
A. STAFF-YEARS					
	(1) Admin. Request	1165	1150	1050	- 100
	(2) NTEU Alt.	1165	1215	1415	+ 200
B. FORMAL ENTRIES OF MERCHANDISE (IN THOUSANDS)		4588	4730	5130	+ 400
4. CUSTOMS PATROL OFFICERS STAFF-YEARS					
	A. Admin. Request	1332	1315	1261	- 54
	B. NTEU Alternative	1332	1315	1345	+ 30

* DOES NOT INCLUDE PAY SUPPLEMENTAL

Mr. CONNERY. During fiscal year 1981, IRS employees were responsible for collecting over $600 billion or 90 percent of the receipts needed to sustain our national defense and to operate the Federal Government. The fair and efficient administration of the tax laws is essential to the health of our society and to achieving a balanced budget.

Because IRS employees are in day-to-day contact with taxpayers, we have firsthand experience with the problems confronting our system of voluntary compliance. For years we have pointed to a burgeoning underground economy, widespread use of abusive tax shelters, a growing number of tax protesters who evade their obligations, more and more delinquent tax accounts, and over 2 million citizens who do not even bother to file a tax return. We stated our conviction that these factors were undermining voluntary compliance by imposing a greater burden on honest taxpayers and fostering the belief that our tax system is unfair.

The reasons why these problems exist are many and varied' but there is one underlying cause of virtually all these ills, that is, the lack of adequate resources for the IRS.

For years we have taken the position that without sufficient funding, the IRS will not be able to carry out its mission in a manner befitting its importance to our Nation's economic well-being. In the Examination and Collection Division, in particular, inadequate staffing has caused the implementation of policies which have a severe adverse impact on IRS employees, our tax system and the people who pay into that system.

We are pleased to note that the Subcommittee on Oversight of the Ways and Means Committee has recognized the scope of the current problems. After listening to the testimony of IRS and OMB representatives, subcommittee chairman Charles Rangel stated that the Service would not have the resources to "fully and efficiently assess and collect taxes legally due and owing the Federal Government. Nor will IRS be able to provide taxpayers with prompt and meaningful assistance or to devote appropriate attention to taxpayer safeguards or, in the final analysis, to maintain and promote voluntary compliance."

Unfortunately, this message has largely fallen on deaf ears within the administration. The President's policy for the current fiscal year, as well as his proposal for the fiscal year 1983 budget represent but a halfhearted attempt to address this critical question. During the current fiscal year, 3.5 million fewer taxpayers will be assisted by the IRS despite passage of last year's new tax law, 2 million fewer returns will be examined causing audit coverage to fall to 1.58 percent, the backlog of cases under administrative appeal will almost double to 50,000 cases representing $14 billion in unresolved tax deficiencies and penalties, and the number of delinquent accounts receivable will rise to 1.2 million, worth $5 billion, in uncollected taxes. These glaring deficiencies remain in the administration's fiscal year 1983 budget proposal.

The Taxpayer Service Division faces the most severe cuts under the administration's budget. Taxpayer Service has evolved in response to Congress' recognition of the need and demand for such assistance and the basic tenet that such service fosters voluntary compliance. The Reagan administration's proposal would reduce the number of taxpayers assisted to 17.9 million in fiscal year 1983, compared to 44.8 million in fiscal year 1981—a reduction of 60 percent. Only 34 out of 100 taxpayers requesting assistance would be helped in fiscal year 1983, compared with 89 out of 100 in fiscal year 1981.

Despite some increase in staff, examinations will be 2,000 positions short of the number required for an audit coverage of 2 percent—the minimum our country can tolerate without courting disaster in taxpayer compliance. And, while the administration's proposal will reduce the enormous backlog of cases in appeals somewhat, it still leaves an inventory of 42,000 cases at the end of fiscal year 1983 compared to 50,000 a year earlier.

The Collection Division, too, has faced serious problems. According to the General Accounting Office, the total amount owed by taxpayers, and uncollected, in fiscal year 1981 was $20.5 billion, and another $3.9 billion was written off as uncollectible. That was fiscal year 1981. Because there was no appreciable increase in the Collection Division last year, there is also no reason to expect any improvement in the results from fiscal year 1982. At a time when the leaders of our Nation are desperately seeking ways to reduce the Federal deficit and balance the budget, the existence of huge amounts of uncollected revenue is a national disgrace.

In closing, Mr. Chairman, let me say that until the IRS is granted resources equal to its responsibilities, our tax system will continue to balance dangerously close to the edge of peril. The problems associated with the IRS cannot be resolved until the agency is funded at an adequate level. We strongly urge the subcommittee to address these pressing needs in order to insure that our system of voluntary compliance can be allowed to function in an efficient and just fashion.

If I may, Mr. Chairman, I will continue on with a detailed statement on fiscal year 1983 appropriations for the Customs Service. We urge the subcommittee to devote careful attention to this information and ask for it to be included in the record of these hearings.

As the subcommittee is undoubtedly aware, Customs is responsible for enforcing a myriad of laws and regulations that affect every segment of our society. So much of our Nation's economy and help is dependent on our Customs law enforcement that this would have an impact on the businesses throughout our Nation. We are particularly aware of the intense pressure on Congress to reduce Federal expenditures. Nevertheless, we feel it essential that the subcommittee keep in mind that Customs is a key revenue-producing agency of the Federal Government. Every dollar spent on enforcement of our Customs laws returns $18 to the U.S. Treasury, and though international trade and travel continue to grow at an annual rate of between 7 and 12 percent, the number of Customs employees has remained constant since 1975.

For these reasons, we are particularly dismayed by the fiscal year 1983 budget request for Customs set forth by the Reagan administration.

In brief, the administration's proposed budget of $530 million requires reduction in force of 1,804 full-time employees and the loss through attrition of an additional 800 positions. Close to 20 percent of Customs' present work force would be eliminated under this plan, including 1,200 inspectors, 260 import specialists and 100 patrol officers.

Senator ABDNOR. Is that coming out of the Customs, you say?

Mr. CONNERY. Yes, sir.

Senator ABDNOR. How many are we losing there?

Mr. CONNERY. Eighteen hundred and 4.

Senator ABDNOR. I will certainly check that out, but that doesn't square with the testimony we have had in the budget figures. We would love to have your full testimony. We usually have it in advance. Your statement didn't arrive before 5 p.m. last night. I usually study it.

All our other committees are very firm on that. That is the reason we would like to have a chance to check some of your figures, so if we have questions——

Mr. CONNERY. Yes; I wasn't aware of that.

Senator ABDNOR. That is fine. Go ahead. I didn't mean to stop you. But I do like to get this straight.

Mr. CONNERY. I appreciate that, Mr. Chairman.

There can be no doubt that these cuts will mean fewer drug seizures at a time when the Nation is barely interdicting 10 percent of the foreign-drug traffic. That enforcement of our trade laws, protecting American industries and workers, will be weakened, and that passenger congestion at our air, land, and sea ports will get worse in the coming year, not better. We strongly urge the subcommittee to add at least the $38 million to the administration's request. This amount, which is included in H.R. 6094, the Customs authorization bill, passed by the House Committee on Ways and Means, represents the appropriation necessary to maintain current operation and staff levels through fiscal year 1983.

Mr. Chairman, in addition to the severe constraints placed upon the Customs Service by the administration's budget policy, we believe that two other issues merit the attention of this subcommittee:

First, the inspectional overtime has generated a great deal of controversy and misinformation over the past year. As you are aware, Customs has been hampered by declining resources since 1974, despite a tremendous growth in passenger and cargo traffic, increasing trade and tariff responsibilities, and a virtual epidemic of narcotics smuggling. This has taken a heavy toll on Customs employees, particularly the inspectional work force which has been called upon to work longer and longer hours on overtime.

Customs has also been hampered in the last several years by the congressionally-imposed cap on overtime earnings. In recent testimony before the House Trade Committee, the Customs Service called for the elimination of the cap, because the overtime limitation is interfering with the accomplishment of missions.

Some services are not being provided, even though the cost of these services is reimbursed to the Government by the carriers.

In addition, the cap is preventing Customs from properly allocating resources at ports of entry. Instead of the workload being processed by local inspectors on overtime, inspectors have been transferred from other ports at Government expense.

As a result, the overtime cap has become an administrative nightmare, costing Customs over $1 million a year to enforce. It is also important to note that the abuses, which led to the imposition of the cap, have been largely eliminated in the administrative changes in assignment of overtime. A manual supplement was implemented by Customs in 1980 which requires that inspectors be available for an entire 8-hour assignment, if they are called to work overtime or Sundays and holidays. In fact, a recent Customs study confirmed that average per-hour-overtime earnings reflect the double-time rate compensation, which is provided in the Act of 1911.

Both the House Subcommittee on Trade and the full Ways and Means Committee voted to eliminate the overtime cap during consideration of H.R. 6049. We urge the Appropriations Subcommittee to do the same so that Customs will be free to use overtime where the demand for services is greatest.

The other issue which is of greatest concern to our union and to the importing community, as well, is Customs' plan to reduce the number of locations where import specialists can review import documents, from 69 nationwide, to 35, or 1 per district. In view of the tremendous growth of foreign trade and the obvious advantage of continuous contact between Customs import specialists and the importing community, we urge the subcommittee to bar the use of funds for the implementation of the so-called centralization of appraisement plan.

We have been joined by importers in opposing this plan for the following reasons: It would deprive the business community of an extremely valuable service and cost many firms thousands of dollars. It would hinder the development of foreign trade in many municipalities and lead to lost revenue and business. It would break the intimate contact with the community which is the source of the import specialists' expertise and would lead to more errors in entry documents, rejected entries, and so forth. It would break down the inspector-import specialist team that is vital to the smooth operation of our ports of entry, and it would ultimately cost the Government billions in lost revenue from entry errors. Amazingly, Customs has provided no rationale for this plan, and we hope that the subcommittee will take the necessary steps to prevent its implementation.

Mr. Chairman, we sincerely appreciate the opportunity to appear before the subcommittee today; and, if there are any questions, my colleagues and I will be pleased to respond.

I have been joined since the start of my testimony by Mr. Jerry Klepner on my right, who is the director of legislation.

Senator ABDNOR. We welcome you. I note in your statement, talking about the export of technology, we certainly agree with you, and we are happy to see this. I guess they call it project Exodus. This is certainly an excellent proposal, and I want to see this through.

Customs is a concern of ours, we will be reviewing it very carefully.

While we are talking about the employees, let me ask you this: In the Treasury, we found special accounts are a very important subject throughout the Treasury and Secret Service, and so on, and it came to our attention that IRS has 1,800 investigators in the same categories as your Secret Service and the special agents.

Their duties do not include any type of law enforcement function. Do you have any recommendations as to how these employees should be used, or do you think they are being used properly?

Mr. CONNERY. Well, their job entails the development of evidence to defeat and evade the payment of tax, and much of their duties involve the association and contact with criminal elements.

I have in my years—I was 18 years in Internal Revenue as an agent, and in those years I was involved with special agents in joint investigations, many of them with criminals, and there were criminal tax frauds that were involved.

Senator ABDNOR. Does that have to be this type of agent, though. The people in the Secret Service are those who get shot. My own concern is that the Secret Service needs more agents, and they have been talking about abolishing the BATF. They are going to take their agents over there. My thought is as much as we have been able to ascertain and find out from the IRS Commissioner and others, we can never find they ever have a gun pulled on them. I don't know why they need this special classification. An investigator is one thing, and I am not saying maybe that the duties are not there.

Mr. CONNERY. Certainly, Senator, I am not going to debate what title they are given, but I do know, I am familiar, I would say, with the general duties of, let's say, an FBI agent. I have been in contact over the years with many of them, and the IRS special agent has, I would certainly say, as much contact with these criminal elements as the average FBI agent, and he certainly is not involved in security work, which is the essence of the Secret Service job.

Senator ABDNOR. That is very true. Because of that, they drive special cars and carry guns and all.

Mr. CONNERY. Well, they have for the last 10 or 12 years, they have been involved—as memory serves me, it has been since the 1964, or 1968 elections, they have been involved in the Presidential security apparatus, driving and also flanking the Presidential motorcades, and in the crowd control.

So they have been involved in the various and sundry activities, including surveying criminals and people who do and are apt to carry guns, and it is oftentimes impossible to predict when a gun is going to be pulled on you, or when someone is carrying a gun.

But certainly they do contact, and they are in contact with people who are apt to do that.

Now certainly it is not an everyday procedure, or an everyday experience, because big-time criminals don't carry guns. It is only small-timers that do that, generally, and IRS isn't too interested in small-time punks.

Senator ABDNOR. I guess what they do is one thing. I am not even questioning that. I just am questioning the 1811 positions, and how that compares with the Secret Service. They lose lives in the Secret Service. I am just wondering if these are specially-trained agents, and are they so badly needed. I wasn't suggesting that we do away with them. I was wondering if that is a type of agent that is needed more. I suppose it goes with this title, the S. 1811 rating, that they shouldn't be used other places. The kind of work you are talking about, I wouldn't think they would need that kind of a rating to do what they are doing. That is pretty special. You have to provide them special-type cars, and guns, and retirement——

Mr. CONNERY. These things were determined, Senator, from studies made many years ago.

Senator ABDNOR. I am not disputing that. We are just trying to work out the problem.

Mr. CONNERY. It is my further understanding that the IRS people who have been involved in the enforcement activities of IRS have, in fact, a greater degree of injury and death from firearms than the FBI.

Senator ABDNOR. Well, they didn't say that when we put the questions to the people. Maybe you have different facts than we do. We had the people themselves, the organization, and that didn't hold up.

But I was just asking your thoughts on it, because it is something we were wondering about.

I have to vote. I will be right back.

Mr. CONNERY. I would like to ask this one question first—It is a bad time to hold hearings when you are holding a session.

Mr. VAN KIRK. What can you tell us about the situation in Customs were inspectors can work for 2 hours and then be paid double time for 2 full days?

Now, you heard the witness from the Air Transport Association talk about the situation in Dulles a little earlier this afternoon. Is there any way we can correct this abuse?

Mr. CONNERY. Yes; I had Mr. Klepner look into that for me, and I would like him to respond to that.

Mr. KLEPNER. The fact of the matter is that Customs has already taken steps to deal with what is no more than a hypothetical situation under current law. The Customs Service did a study of overtime hours and overtime work and overtime earnings last year, and what that study showed is that on Sunday overtime, Customs inspectors made just a little more than double time, and that Customs inspectors are not making 2-days' pay for 2-hours' overtime work.

We have heard for a long time that Customs inspectors can make exorbitant amounts of overtime for a small amount of work. However, our information in the study conducted by the Customs Service indicates that that information is erroneous.

Mr. VAN KIRK. In other words, when Mrs. Pinegar testified here earlier this afternoon, representing the Air Transport Association, that the situation at Dulles where they came in at 8 o'clock and then were paid overtime; and, if they could change that travel schedule around, that didn't occur?

Mr. Klepner. I didn't hear her testimony, so I can't provide information to the specifics of her testimony. The only information I can provide the subcommittee is the information we received from the Customs Service on the amounts of overtime earned by inspectors on a nationwide basis on Sundays.

Mr. van Kirk. Thank you.

Mr. Klepner. I would refer you specifically to page 31 of the statement that Mr. Connery submitted for the record, and the second full paragraph of that report says that the findings of this study are so significant that he would like to quote them, and the quote is that the national average earnings per assignment and hourly rate based on a GS–9, step 5, the average inspector grade level, are, and the first citation is Sunday, $158.24, 2.1 times the average hourly rate.

Mr. van Kirk. Thank you very much.

We have Airport Operators next.

Airport Operators Council International

STATEMENT OF J. J. CORBETT, VICE PRESIDENT, FEDERAL AFFAIRS

PREPARED STATEMENT

Mr. Corbett. May we submit our statement for the record in the absence of the chairman?

Mr. van Kirk. He will be back in a moment.

Mr. Corbett. We will submit it for the record.

[The statement follows:]

STATEMENT OF J. J. CORBETT

Mr. Chairman, I am J. J. Corbett, AOCI Vice President - Federal Affairs of the Airport Operators Council International (AOCI). The Airport Operators Council International is the association of the primarily local governments that own and operate the principal airports served by the scheduled airlines in the United States and around the world. Our member airports annually enplane more than 90% of the total domestic and virtually all of the U.S. international scheduled airline passenger and cargo traffic. Worldwide, our international member airports enplane two-thirds of all airline passengers on six continents (Attachment A).*

On behalf of our U.S. members, and more particularly the largest 25 U.S. international airports that this year will receive more than 30 million arriving international passengers, we are grateful for this opportunity to comment on FY'83 appropriations for the port of entry inspection program of the Department of the Treasury's U.S. Customs Service.

- Airports and Facilitation

At the beginning it might be helpful to more fully describe the role of the airport operator and its community in the U.S. international facilitation program. For foreign visitors travelling by air, the airport and its reception and Federal Inspection Services (FIS) (Customs, Immigration and Agriculture) create their first impressions of the United States and, more particularly, of the city of arrival. How these visitors are treated in the inspection process is thus highly important to the community operating that airport.

Returning U.S. nationals and residents often view the Federal inspection and clearance process somewhat differently, as a necessary but burdensome process seemingly designed to test their patience after a long, wearying international journey. For all these arriving international air travelers, the airport operator and its community wants to assure a good impression, a warm welcome or a welcome home.

More specifically, while the airport operator has to provide the space and facilities in which the Federal Inspection Services undertake their screening of arriving passengers and baggage, it can neither directly influence the procedure used by the Federal agencies nor assure that adequate manpower will be available to avoid processing delay. Those are Federal Governmental decisions but we have had some suggestions for improvement that the FIS agencies are now responding to.

We have long urged that the Federal Inspection Services should, in close cooperation with U.S. international airlines and the operators of our nation's international airports, adopt all practicable measures to facilitate international air travel and to prevent unnecessary delays to aircraft, crews, passengers, baggage and cargo.

---

*Both Attachments are presented for the Subcommittee's files and not for the printed hearing record.

While Federal inspection and clearance procedures must emphasize the protection of the public from smuggling activities, particularly of narcotics, and from contraband agricultural products, plant pests, communicable diseases and the illegal entry of aliens, we believe that these objectives are consistent with a vastly improved international aviation facilitation program.

- Survey of Inspection Services at U.S. International Airports

Mr. Chairman, our 1981 survey of U.S. international airports (Attachment B) indicates that the fourteen primarily largest airports enplaning some 64% of all arriving international air passengers judged their Federal Inspectional Services as Inadequate. In contrast, an additional eleven international, primarily smaller, airports handling 14% of all air arrivals judged their FIS services to be Adequate.

A reading of the narrative responses from the international airports judged Inadequate is highly disturbing. Unmanned Customs and INS inspection booths and two-hour passenger processing delays are often cited. Contributing factors to passenger congestion are airline peaking of flights and inadequate facilities in airport arrival halls to handle all the passengers aboard jumbo jets that often arrive simultaneously.

There are, however, three recurring themes in these reports from around the nation. First, the numbers of arriving international air passengers in recent years has increased 5% to 15% annually. Next, in those same years, the FIS agencies as a group have been unable to increase their airport inspectional manpower levels in proportion to the increasing workload or at all. Thus, the net result has been unacceptable increases in average processing delays for arriving passengers at too many major international airports.

- Sole Remaining Options: More Efficient Inspection Process or More Manpower

All indications are that additional increasing delays simply will not be tolerated by the travelling public. The only remaining options are these:

(1) Either the FIS agencies must modify their inspection process to achieve the same or improved enforcement results in less time;

or

(2) The Congress must increase Customs and other FIS agency inspectional forces in some proportion to traffic increases.

Mr. Chairman, because of the budget constraints facing the Congress as exemplified by the tight budget proposed by the Administration for Customs in FY'83, we hope you will continue to support efforts within Customs to modernize its passenger inspectional process at all U.S. international airports.

- ASIST Test Program Has Been Highly Successful

This Congress deserves a large measure of appreciation for its efforts in the FY'82 Customs authorization process to encourage Customs, Immigration and Agriculture to undertake some innovative steps to improve their inspection processes without diluting the enforcement function.

Mainly because of Congressional and local pressures, the FIS agencies in January completed a six-month test of a more efficient and facilitative inspection process at Los Angeles and Miami International Airports called ASIST (Accelerated Specialized Inspection System Test). While the agencies have recently completed the analysis of their data from the test and have sent their recommendations for the future to the Treasury Department for eventual submission to Congress, the General Accounting Office has already completed and released its report on the six-month test program at the those two airport locations.

In its March 22, 1982 Report, One-Stop Inspection System Speeds the Entry of International Travelers (GGD-82-62), the Comptroller General found that the ASIST process speeds the entry of arriving air passengers by an average of 23 minutes in Miami and 17 minutes in Los Angeles (reductions of 39% and 35%, respectively, from pre-ASIST times).

Mr. Chairman, the officials of the Customs Service have been most cooperative in attempting to find ways, such as ASIST, to facilitate passenger processing while not reducing statutory protections. They are to be commended for their willingness to try new processes.

- AOCI Recommendations to Congress

1. Since the ASIST program has already proven itself in the two airport test locations, it should also be implemented, with modifications as needed, by Customs and the other FIS agencies at as many other U.S. international airports of entry as can be configured to accept it for Summer 1982.
2. ASIST is not a panacea. Adequate levels of FIS inspectors still must be provided to service increasing numbers of international arrivals. It is our understanding that Customs will be able to provide approximately the same level of manpower at U.S. airports under the President's FY'83 Budget proposal for Summer 1983 as in Summer 1982. Unless Congress allows more manpower over the long term in some proportion to passenger traffic increases, any improvement during FY'83 and thereafter will have to be by process and not by numbers of inspectors.

3. In contrast to present practice, we believe that the international traveler should pay for part of the cost of the FIS airport passenger inspection process. We have proposed that the $3 international passenger tax that historically has been imposed to cover the U.S. Government's cost of providing safe airport and airway facilities should be increased, as proposed in pending legislation, by $2 to a total of $5 to cover, as well, about half of the direct costs incurred by the FIS agencies for passenger processing.

4. Ultimately, AOCI members believe that Congress should move to a single border management agency to handle all passenger inspection functions. The cross-training that has occurred between Customs and INS as part of the ASIST test program is a progressive step toward that broader objective.

- Early Final Decision on National Implementation of ASIST Needed

Beyond its approval of full FY'83 funding for Customs, this Subcommittee in our view can be most helpful in assuring that Customs and the other FIS agencies decide on early implementation of the ASIST inspection process without any unnecessary delay.

There is no reason why those agencies shouldn't soon be ready to testify, along with the General Accounting Office, before your Subcommittee on a final decision on ASIST and, hopefully, to detail at that same time a nationwide implementation program for this summer.

Airport operators need as early a decision as possible on the ASIST program because many airport communities (Los Angeles, Seattle, New York, Minneapolis-St. Paul) are in the final design phase for new and costly international arrival facilities and they need to know the future pattern of traffic flow to be used by the FIS agencies to complete those designs.

In summary, Mr. Chairman, we would appreciate any assistance your Subcommittee could offer -- through early hearings on the ASIST test results -- to assure other communities that ASIST, when approved and as modified, will not be denied them for the coming summer season.

Thank you.

CONCLUSION OF HEARINGS

Mr. VAN KIRK. This concludes the hearings on the Treasury, Postal Service bill for 1983. The subcommittee is recessed, subject to the call of the Chair.

[Whereupon, at 4:07 p.m., Wednesday, May 12, the hearings were concluded, and the subcommittee was recessed, subject to the call of the Chair.]

LIST OF WITNESSES, COMMUNICATIONS, AND PREPARED STATEMENTS

Page
Abdnor, Hon. James, U.S. Senator from South Dakota, questions submitted by 334
Aidinoff, M. Bernard, chairman-elect of the section of taxation, New York, N.Y., American Bar Association 529
  Prepared statement 533
Aikens, Commissioner Joan D., Budget Task Force, Federal Election Commission 437
American Association of Retired Persons and National Retired Teachers Association, prepared statement 541
Applewhaite, Leon B., member, Federal Labor Relations Authority 369
  Prepared statement 392

Babcock, Stephen L., Executive Director, Administrative Conference of the United States 447
Barber, Jean, Assistant Director for Financial Control and Management, Compensation Group, Office of Personnel Management 337
Beebe, Cora P., Assistant Secretary, Administration, Office of the Secretary, Department of the Treasury 1, 69, 93, 125, 139, 155, 259
  Prepared statement 2
Beres, Alan, Commissioner, Transportation and Public Utilities Service, General Services Administration 279
Berg, Richard K., General Counsel, Administrative Conference of the United States 447
Bickford, Charlene N., Coalition to Save our Documentary Heritage 583
  Prepared statement 590
  Statement of 595
Bishop, Joseph E., Assistant Commissioner, Computer Services, Internal Revenue Service, Department of the Treasury 155
  Biography of 168
Bolger, William F., Postmaster General, U.S. Postal Service 415
  Prepared statement 423
Bowie, Washington D., Budget and Accounting Officer, U.S. Tax Court 403

Caldwell, William, Director, Operations Management, Office of the Special Counsel 357
Canup, William C., tax aid program, National Retired Teachers Association and American Association of Retired Persons 540
Carlon, Joseph, Deputy Assistant Director, Investigations, U.S. Secret Service, Department of the Treasury 93
Carmen, Gerald P., Administrator, General Services Administration 279
  Prepared statement 281
Casazza, Charles S., Clerk of the Court, U.S. Tax Court 403
Christensen, Bruce, president, National Association of Public Television Stations, Washington, D.C 558
  Prepared statement 563
Clutter, B. Allen, Staff Director, Federal Election Commission 437
Conley, Sidney M., Budget Officer, Office of Personnel Management 337

Page

Connery, Vincent L., national president, National Treasury Employees Union ... 607
  Prepared statement ... 608
Cook, Clyde C., Chairman, Committee for Purchase From the Blind and Other Severely Handicapped ... 429
  Prepared statement ... 430
Corbett, J. J., vice president, Federal affairs, Airport Operations Council International ... 650
  Prepared statement ... 651
Corcoran, George C., Jr., Assistant Commissioner (Border Operations), U.S. Customs Service, Department of the Treasury ... 69

David, Lily Mary, Consultant to the Committee, Advisory Committee on Federal Pay ... 479
Davis, Joseph T., Associate Commissioner, Policy and Management, Internal Revenue Service, Department of the Treasury ... 155
  Biography of ... 168
De Angelus, Alfred R., Assistant Commissioner (Commercial Operations), U.S. Customs Service, Department of the Treasury ... 69
DeConcini, Hon. Dennis, U.S. Senator from Arizona, questions submitted by ... 54, 509
Delaney, Edward N., Washington, D.C., American Bar Association ... 529
Devine, Donald J., Director, Office of Personnel Management ... 337
  Prepared statement ... 339
Dooher, John C., Assistant Director, Washington Office, Federal Law Enforcement Training Center, Department of the Treasury ... 139
Douglas, William E., Department of the Treasury, prepared statements ... 8, 17
Dudley, Dr. William S., treasurer, Society for History in the Federal Government ... 583
  Statement of ... 592
Durenberger, Hon. David F., U.S. Senator from Minnesota, prepared statement ... 460

Early, William B., Jr., Director of the Budget, General Services Administration ... 279
Egger, Roscoe L., Jr., Commissioner, Internal Revenue Service, Department of the Treasury ... 155
  Prepared statement ... 157
Ellingwood, Herbert E., Chairman, Merit Systems Protection Board ... 347
  Prepared statement ... 351

Finch, Jim, Senior Assistant Postmaster General, U.S. Postal Service ... 415
Fletcher, Charles W., Executive Director, Committee for Purchase From the Blind and Other Severely Handicapped ... 429
Fontaine, Ray, Assistant Administrator for Plans, Programs, and Financial Management, General Services Administration ... 279
Frazier, Henry B., III, member, Federal Labor Relations Authority ... 369

Gerber, Joel, Deputy Chief Counsel, Internal Revenue Service, Department of the Treasury ... 155
  Biography of ... 167
Gerson, David, Assistant Director, Office of Management and Budget, Executive Office of the President ... 491
Gideon, Kenneth W., Chief Counsel, Internal Revenue Service, Department of the Treasury ... 155
  Biography of ... 167
Gregg, W. M., Bureau of the Public Debt, Department of the Treasury, prepared statement ... 27
Gusky, David, National Federation of Federal Employees ... 599
  Prepared statement ... 602

Haughton, Ronald W., Chairman, Federal Labor Relations Authority ... 369
Prepared statements ... 370, 373
Heironimus, M. Eddie, Assistant Commissioner, Returns and Information Processing, Internal Revenue Service, Department of the Treasury ... 155
  Biography of ... 169

Page

Higgins, Stephen E., Acting Director, Bureau of Alcohol, Tobacco and Firearms, Department of the Treasury 125
  Prepared statement 133
Hill, Eugene, Director of Budget and Finance, Merit Systems Protection Board 347
Hudson, Michael, Assistant Director for Legislative Affairs, Office of Management and Budget, Executive Office of the President 491

Kallen, Arthur D., Director, Office of Budget and Program Analysis, Department of the Treasury 1, 69, 93, 125, 139, 155, 259
Kelso, William M., Assistant Director, Resource Management, Federal Law Enforcement Training Center, Department of the Treasury 139
Kenney, Jeremiah J., director of Federal affairs, Union Carbide Corp 571
  Prepared statement 581
Kline, Ray, Deputy Administrator, General Services Administration 279
Kozinski, Alex, Special Counsel, Office of the Special Counsel 357
  Prepared statement 358
Kump, Joseph F., Fiscal Management Officer, Internal Revenue Service, Department of the Treasury 155

Latimer, Allie B., General Counsel, General Services Administration 279
Link, Nina B., vice president/publisher, Children's Television Workshop, New York, N.Y 558
  Prepared statement 568
  Statement of 560
Lubbers, Jeffrey S., Research Director, Administrative Conference of the United States 447

Markon, Roy, Commissioner, Federal Property Resources Service, General Services Administration 279
Maxwell, Robert, Deputy Assistant Director (Regulatory Enforcement), Bureau of Alcohol, Tobacco and Firearms, Department of the Treasury 125
McDonald, Danny Lee, Vice Chairman, Federal Election Commission 437
McKinley, David W., Acting Director, Federal Law Enforcement Training Center, Department of the Treasury 139
  Prepared statement 142
McMorran, William, director, tax aid program, National Retired Teachers Association and American Association of Retired Persons 540
McNamar, R. T., Deputy Secretary, Department of the Treasury 259
Mead, Steven R., U.S. Savings Bond Division, Department of the Treasury, prepared statement 31
Miller, Dr. Page Putnam, project director, National Coordinating Committee, American Historical Association and Organization of American Historians 583
  Statement of 593
  Prepared statement 585
Morrison, James W., Jr., Associate Director, Compensation Group, Office of Personnel Management 337

National Retired Teachers Association and the American Association of Retired Persons, prepared statement 541
Nesterczuk, George, Associate Director, Administration Group, Office of Personnel Management 337

Owens, James I., Deputy Commissioner, Internal Revenue Service, Department of the Treasury 155
  Biography of 166

Parr, Jerry, Assistant Director, Protective Research, U.S. Secret Service, Department of the Treasury 93
Pearson, Ursula H., Director, Financial Management, Compensation of the President, Executive Office of the President 247
  Biography of 251

Page
Pinegar, Linda, director, Federal legislation, Air Transport Association of America 547
  Prepared statement 553
Pope, Donna, Director, Bureau of the Mint, Department of the Treasury 1
  Prepared statement 19
Position paper by the Domestic Tungsten Mining Companies Ad Hoc Committee on GSA 572
Poston, Ersa H., Vice Chair, Merit Systems Protection Board 347

Rankin, John, Acting Assistant Commissioner, Criminal Investigation, Internal Revenue Service, Department of the Treasury 155
Rasmussen, Ronnie R., Budget Officer, Compensation of the President, Executive Office of the President 247
  Biography of 251
Redenius, Richard, Managing Director, Merit Systems Protection Board 347
Regan, Donald T., Secretary of the Treasury, Department of the Treasury 259
  Prepared statement 259
Reiche, Commissioner Frank P., Chairman, Federal Election Commission 437
  Prepared statement 438
Reuben, S. Jesse, Deputy General Counsel, Federal Labor Relations Authority 369
  Prepared statement 374
Rogers, John F. W., Special Assistant to the President for Management, and Director, Office of Administration, Compensation of the President, Executive Office of the President 247
  Biography of 251
  Prepared statement 248
Rosow, Jerome M., Chairman, Advisory Committee on Federal Pay 479
  Prepared statement 480

Sanders, Robert E., Assistant Director (Criminal Enforcement), Bureau of Alcohol, Tobacco and Firearms, Department of the Treasury 125
Schoeni, Patricia Q., Director, Congressional Affairs, General Services Administration 279
Simpson, John R., Director, U.S. Secret Service, Department of the Treasury 93
  Prepared statement 96
Smith, Loren A., Chairman, Administrative Conference of the United States 447
  Prepared statement 448
Smith, Patrick, director of legislation, National Treasury Employees Union 607
Staley, Alene, Assistant Budget and Accounting Officer, U.S. Tax Court 403
Steele, Charles N., General Counsel, Federal Election Commission 437
Steinko, Franklin A., Budget and Management Officer, Advisory Commission on Intergovernmental Relations 459
Stenberg, Carl W., Assistant Director, Policy Implementation, Advisory Commission on Intergovernmental Relations 459
Stockman, David A., Director, Office of Management and Budget, Executive Office of the President 491
  Prepared statement 493

Tannenwald, Theodore, Jr., Chief Judge, U.S. Tax Court 403
  Prepared statement 404
Tanner, Lucretia Dewey, Advisory Committee on Federal Pay 479
Taylor, Paul H., Fiscal Assistant Secretary, Office of the Secretary, Department of the Treasury 1
Trask, David F., president, the Society for History in the Federal Government, prepared statement 584

von Raab, William, Commissioner of Customs, Department of the Treasury 69
  Prepared statement 72

Walker, David B., Assistant Director, Government Structures and Functions, Advisory Commission on Intergovernmental Relations 459

Page
Walker, John M., Jr., Assistant Secretary, (Enforcement and Operations), Treasury Department, Department of the Treasury ... 69, 93, 125, 139
  Prepared statements ... 71, 95
Warner, Dr. Robert M., Archivist of the United States, General Services Administration ... 279
Weinstein, Myron I., Deputy Director, U.S. Secret Service, Department of the Treasury ... 93
White, Frederick N., Jr., Assistant Director, Administration, U.S. Secret Service, Department of the Treasury ... 93
Williams, Donald R., Assistant Director, Office of Finance and Budget, Office of Personnel Management ... 337

SUBJECT INDEX

ADMINISTRATIVE CONFERENCE OF THE UNITED STATES

Page

Employment levels for 1983 457
Expenses for 1983, increases in 457
Introduction of associates 447
Justification 453
Summary statement 456

ADVISORY COMMISSION ON INTERGOVERNMENTAL RELATIONS

ACIR's:
  Appropriation request 464
  Part in rebalancing federalism 460
State-local revenue systems—What they should be and how they can get that way 469
Summary statement 466

ADVISORY COMMITTEE ON FEDERAL PAY

Budget request 488
Comparability, need for 487
Role of the committee 487
Total comparability 487

COMMITTEE FOR PURCHASE FROM THE BLIND AND OTHER SEVERELY HANDICAPPED

Budget request 436
Justification 432

DEPARTMENT OF THE TREASURY

Appropriations language proposals 260
ATF agents to Secret Service, transfer of 270
Customs supplemental request 273
Flat tax 274
IRS concerns 276
Law enforcement, funds for 269
President's budget, 1983 262
Recession 275
Summary statement 267
Supplementals, fiscal year 1982 260
World Bank executive director, new 275

BUREAU OF ALCOHOL, TOBACCO AND FIREARMS

1982 supplemental request 126
Consolidated summary of permanent positions, detail of permanent positions 131
Enforcement activities 132
Introduction of associates 125

Page
Justification for supplemental requirements fiscal year 1982 128
Object classification 130
Personnel summary 130
Program and financing 129
Regulatory activities 132
  Effects of attrition on 136
Revenue protection 135
Salaries and expenses 128
South Florida supplemental 134
Supplemental budget 134

FEDERAL LAW ENFORCEMENT TRAINING CENTER

Appropriation request 140
Basic training 145
Budget request 149
Center background 139
Facility:
  Operations 150
  Street lights 151
FTS calls, monitoring of 153
Introduction of associates 139, 149
Maintenance, major 147
New participating organizations 140
Plant operations 144
Privacy Act, violation of 152
Radio room, relocation of 151
Recent activities and current status 142
Salaries and expenses 143
Student capacity 151
Training:
  Activity, new 140
  Requests, increased 151
  Support 147
  Types of 149
TV/AV production costs 151

INTERNAL REVENUE SERVICE

Additional committee questions 187
Budget request 155
  Summary of fiscal year 1983 171
Collection activities 188
Computer resources 196
Crude oil windfall profits tax 213
Examination coverage 216
Examinations and appeals appropriation 162
Federal highway use tax on heavy motor vehicles 217
International activities 218
Investigations and collection appropriation 162
Legal services 221
Optical character recognition: An alternative in data entry for the Internal Revenue Service 172
Salaries and expenses appropriation 158
Self-help program 183
Snyder case 178
Special agents 180
  To Secret Service, temporary assignment of 182

Page
Special compliance problems 186
  General 223
  Tax:
    Havens 225
    Protesters 226
    Shelters 231
Supplemental request for fiscal year 1982, summary of 170
Tax enforcement, improving 175
Tax forms and instructions, simplification of 222
Tax protestors 177
Tax, understatement of 177
Tax-exempt organizations 236
Taxpayer:
  Assistance 239
  Service and returns processing appropriation 159
Taxpayers' Protection Act (H.R. 4931) 178
Tele-tax information program 184
Toll free telephone:
  Assistance, impact of reduction in 185
  Systems reductions 182
Underground economy 234
Unpaid taxes 176
VITA program 184
Writ of entry 179

OFFICE OF THE SECRETARY

Additional committee questions 51, 53
Banking and cash management 13
Budget request 39
Bureau of Government Financial Operations 2
Bureau of the Mint 4
  1982 funding situation 20
  1983 budget request 19
  Automatic data processing 26
  Background 21
  Coin:
    Requirements 21
    Production 22
  Deposit activity 22
  Equal employment opportunity 24
  Expansion/improvement plan 23
  George Washington commemorative half dollar 27
  Gold:
    Continuing audits of 25
    Medallions 27
  Internal audit 25
  Numismatic and reimbursable 26
  Personnel 24
  Protection 23
  Refining 23
  Safety and health 26
Bureau of the Mint:
  Salaries and expenses 54
  Expansion and improvements 54
Bureau of the Public Debt 3
  1982 levels, hold funding at 66
  Agent fee schedule, restoration of paying 65
  Federal Reserve Bank reimbursements 30
  Fiscal year 1983 appropriation request 28

Bureau of the Public Debt—Continued Page
  Marketable securities 30
  Paying agent fees 31
  Productivity savings 31
  Savings bond program 29
Coinage strip, fabrication of 49
Copper purchases 49
Debt ceiling 52
Departmental studies 59
Disbursement and claims 11
Fee increases 50
General financial services 16
Governmentwide accounting 13
Indexing 48
Inspector General 59
International affairs 57
Introduction of associates 46
Language change request 40
Law enforcement funding 47
Nonappropriated funds 41
Object class 59
Office of the Secretary/International Affairs 2
Repairs and improvements program 61
Reimbursable positions 40
Representation 60
  Funds 46
Research contracts 62
Resource requirements 9
Saudi Arabian Government, financial arrangements with 42
Savings Bond Division:
  Annual changes in amount outstanding 37
  Bonds sold, number of 36
  Denomination sales 35
  Fiscal year 1983 budget request 33
  Savings bond sales 34
  Savings bonds holdings 38
Savings Bonds Division 4
Social security 51
Transfer authority 5
Travel 46, 60
Treasury securities 47
  Effect of IRA's and other thrift promotions on the purchase of 48

U.S. SECRET SERVICE

Abdnor, opening remarks of Senator 119
Activities, continued increase in 101
Appropriation request 116
Assistance of other Federal, State, and local law enforcement agencies 102
Beltsville training facility 122
Bond forgery 112
Budget:
  Amendment 122
  Request 100
Budget request for ATF responsibilities 93
Candidate and nominee protection 102, 117
Candidate nominee program 94
Check forgery 110
Colombian field office 120
Continued increase in activities 117

Page

Counterfeiting:
  Activities ... 108
  Investigations ... 119
Criminal jurisdiction, additional ... 121
Equal employment opportunity ... 113, 118
Far East field office ... 120
Field offices ... 106, 118
Foreign heads of state or government, protection of ... 103
Freedom of Information and Privacy Acts ... 114, 121
Introduction of associates ... 116
Investigative activities ... 94
Knight, tribute to former Director ... 116
Organized crime ... 112
Overall investigative caseload ... 107
Permanent protection ... 104
Presidential nominees and spouses of nominees afforded Secret Service protection ... 103
Protective:
  Activities ... 93
  Effort ... 101, 117
  Research ... 114
Reagan, assassination attempt on President ... 116
Training ... 115
Treasury security force ... 106
U.S. Secret Service Uniformed Division ... 105, 117

U.S. CUSTOMS SERVICE

Additional committee questions ... 92
Air interdiction ... 85
Aircraft ... 88
Automation capabilities, maximizing ... 77
Budget request ... 69
Cargo processing ... 75
Contraband, seizures of ... 91
Current efforts ... 78
Customs:
  Aircraft ... 87
  Policy ... 82
  Priorities ... 70
  Request ... 82
Enforcement ... 90
Florida enforcement ... 90
INS and DEA, cooperation with ... 87
Inspection and control ... 73
  Reductions in ... 89
Introduction of associate ... 82
Investigations ... 80
Investigative efforts ... 86
Law enforcement ... 83
Major accomplishments ... 72
Passenger and cargo processing ... 84
Passenger processing ... 74
Posse comitatus ... 88
Reductions, how Customs plans to cope with ... 89
Regional reorganization ... 84
Revenue collection ... 83
Seizures ... 82, 91
South Florida ... 92
South Florida Task Force ... 84

Page

Tactical interdiction 78
Tariff and trade 76
Trade 83

EXECUTIVE OFFICE OF THE PRESIDENT

COMPENSATION OF THE PRESIDENT

Aides, chauffeuring of 255
Budget cuts 256
Compensation of the President 248, 252
Council of Economic Advisers 250, 253
Increases:
  Justification of 254
  Request for 254
National Security Council 250, 253
  Breakdown by grade 256
  Budget request for 256
Office of Administration 248, 252
Office of Policy Development 250, 253
Special Assistance to the President 249, 252
The First Lady's staff 255
The White House Office 248, 252
White House improvement 255

OFFICE OF MANAGEMENT AND BUDGET

Additional committee questions 508
Budget reductions, 1982 493
Budget request 501
  1983 495
Central budget management system (CBMS) 509
Consulting services 515
Debt collection 512
Detailed review of costs 496
Freeze at 1982 levels 513
Major objectives 499
Navigational-usage charges 504
Organization: Special studies 514
Other services 514
Pay supplemental, 1982 495
Rising workload 493
Square footage 513
Tax system, new approach to 507
Waste, fraud, and abuse 510

FEDERAL ELECTION COMMISSION

Budget request 444

FEDERAL LABOR RELATIONS AUTHORITY

Accomplishments in fiscal year 1981 378
Administrative support, supplemental statement on 396
Backlogs in fiscal year 1983 395
Budget request 394
Case handling accomplishments 395
Caseload statistics 398
Current status—fiscal year 1982 382
Financial situation, fiscal year 1982 398

Page
Furniture:
  Procurement 395
  Purchases 399
Management improvements 394
Office of Administration, restructuring of the 398
Office of the General Counsel, fiscal year 1983 budget request for 397
Preview of fiscal year 1983 386

GENERAL SERVICES ADMINISTRATION

Additional committee questions 334
Estimates of appropriations, 1983 289
Federal vehicle fleet 333
Independent National Archives 330
Industrial funding 325
Jamaican bauxite 327
NARS organization 331
National Archives and Records Service 324
National Archives Building and Presidential Libraries 328
  Preservation 328
  Environmental conditions 329
National Archives trust fund 331
National Historical Publications and Records Commission 329
Public buildings service 287
Real property disposals 331
Resources, transferring 335
Senior executive relocations 332
Standard level user charges 325
Stockpile:
  Goals 332
  Storage 326
Strategic stockpile 324
Summary statement 286

MERIT SYSTEMS PROTECTION BOARD

Air traffic controller appeals 349
Introduction of associates 347
Request, fiscal year 1983 348
Supplemental, status of fiscal year 1982 347

OFFICE OF PERSONNEL MANAGEMENT

Compressed work schedule 343
Grants to local assistance, eliminating 343
Health insurance program 344
Introduction of associates 337

OFFICE OF THE SPECIAL COUNSEL

Budget request 364

U.S. POSTAL SERVICE

Borrowing authority 417
Budget request 415
Closing small post offices 419
Outstanding debts 419
Productivity increases 416
Public service appropriation 416
Revenue forgone 415
Revolving fund 417

Page
Second-class:
    In-county rates 420
    Nonprofit rates 420
Six-day delivery 420
ZIP plus four 421

U.S. TAX COURT

Caseload, increased 410
Government recovery rate 412
Increase requested for fiscal year 1983 410
Interest rate, increased 413
Summary statement 410
Urgent supplemental, need for fiscal year 1982 411

○